



Financial Statements

For the Year Ended June 30, 2019

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## **Independent Auditor's Report**

**To the Board of Directors  
Town Hall Association  
Seattle, Washington**

We have audited the accompanying financial statements of Town Hall Association ("THA"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 THA as of June 30, 2019, and the changes in its net assets and its cash flows for the year 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, THA 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 June 30, 2019. 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 Summarized Comparative Information**

We have previously audited THA's 2018 financial statements and expressed an unmodified opinion on those audited financial statements in our report dated October 23, 2018. As part of our audit of the 2019 financial statements, we also audited the adjustments described in Note 1 that were applied to retroactively apply the requirements of ASU 2016-14 to the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived after adjustment for retrospective application of ASU 2016-14.

*Clark Nuber P.S.*

Certified Public Accountants  
October 23, 2019

**TOWN HALL ASSOCIATION**

**Statement of Financial Position**

**June 30, 2019**

**(With Comparative Totals for 2018)**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,572,261	\$ 3,784,119
Grants and pledges receivable	179,684	129,129
Prepaid expenses	65,063	40,144
<b>Total Current Assets</b>	<b>1,817,008</b>	<b>3,953,392</b>
Long-term investments	5,646,518	1,524,067
Capitalized loan fees, net		23,757
Capital campaign pledges, net	758,569	1,301,413
Land, building, improvements and equipment, net	32,823,183	18,573,775
Donated artwork	66,243	20,750
<b>Total Assets</b>	<b>\$ 41,111,521</b>	<b>\$ 25,397,154</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 337,547	\$ 201,776
Construction payables	1,286,764	1,480,974
Deferred revenue and deposits	54,659	11,165
Line of credit, current portion	2,405,918	
<b>Total Current Liabilities</b>	<b>4,084,888</b>	<b>1,693,915</b>
Line of credit, less current portion	2,387,831	
<b>Total Liabilities</b>	<b>6,472,719</b>	<b>1,693,915</b>
<b>Net Assets:</b>		
Without donor restrictions-		
Undesignated, available for operations	3,788,616	3,725,431
Board-designated reserve funds	1,546,943	1,730,781
Designated for Inside/Out programming		75,000
Net investment in land, building, improvements, equipment and artwork	26,808,913	1,595,624
	32,144,472	7,126,836
With donor restrictions	2,494,330	16,576,403
<b>Total Net Assets</b>	<b>34,638,802</b>	<b>23,703,239</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 41,111,521</b>	<b>\$ 25,397,154</b>

See accompanying notes.

TOWN HALL ASSOCIATION

Statement of Activities and Changes in Net Assets  
For the Year Ended June 30, 2019  
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
<b>Operating Activities</b>				
<b>Support and Revenue:</b>				
Tickets and rentals	\$ 274,805	\$ -	\$ 274,805	\$ 205,733
Contributions and grants	1,515,418		1,515,418	1,530,781
Sale of TDP used for operations (Note 11)				150,000
<b>Total Support and Revenue</b>	<b>1,790,223</b>		<b>1,790,223</b>	<b>1,886,514</b>
<b>Program and Operating Expenses:</b>				
Program	1,152,523		1,152,523	927,176
Management and general	210,365		210,365	358,912
Fundraising	413,430		413,430	394,619
<b>Total Program and Operating Expenses</b>	<b>1,776,318</b>		<b>1,776,318</b>	<b>1,680,707</b>
<b>Change in Net Assets From Operating Activities Before Depreciation</b>	<b>13,905</b>		<b>13,905</b>	<b>205,807</b>
Depreciation	195,340		195,340	114,993
<b>Change in Net Assets From Operating Activities</b>	<b>(181,435)</b>		<b>(181,435)</b>	<b>90,814</b>
<b>Nonoperating Activities</b>				
Capital campaign contributions and grants		9,929,485	9,929,485	5,117,405
Capital campaign expenses	(1,332,862)		(1,332,862)	(1,430,400)
Endowment contributions		2,400,000	2,400,000	
Sale of TDP used for capital campaign (Note 11)				1,136,991
Investment return	83,188	53,423	136,611	77,509
Loss on disposal of assets	(16,236)		(16,236)	(60,869)
Contributions released from restriction	26,464,981	(26,464,981)		
<b>Change in Net Assets From Nonoperating Activities</b>	<b>25,199,071</b>	<b>(14,082,073)</b>	<b>11,116,998</b>	<b>4,840,636</b>
<b>Total Change in Net Assets</b>	<b>25,017,636</b>	<b>(14,082,073)</b>	<b>10,935,563</b>	<b>4,931,450</b>
Net assets, beginning of year	7,126,836	16,576,403	23,703,239	18,771,789
<b>Net Assets, End of Year</b>	<b>\$ 32,144,472</b>	<b>\$ 2,494,330</b>	<b>\$ 34,638,802</b>	<b>\$ 23,703,239</b>

See accompanying notes.

**TOWN HALL ASSOCIATION**

**Statement of Functional Expenses  
For the Year Ended June 30, 2019**

	Program	Capital Campaign Project Costs	Total Program	Management and General	Fundraising	Capital Campaign Fundraising	Total Fundraising	2019 Total
Payroll	\$ 661,440	\$ -	\$ 661,440	\$ 109,164	\$ 230,614	\$ 452,680	\$ 683,294	\$ 1,453,898
Production and other events	331,067	57,762	388,829		123,319	56,934	180,253	569,082
Printing and advertising	97,215	76,388	173,603		9,022		9,022	182,625
Bank and loan fees	940	40,572	41,512	949	6,816		6,816	49,277
Travel and meals	2,258	4,064	6,322	13,203	1,455	10,833	12,288	31,813
Technology, supplies, and office support	31,598	15,829	47,427	50,322	24,321	7,629	31,950	129,699
Depreciation	193,238		193,238	2,102				195,340
Professional fees	23,872	353,331	377,203	23,828	16,358	54,321	70,679	471,710
Insurance		32,444	32,444	6,226				38,670
Occupancy	4,133	170,075	174,208	6,673	1,525		1,525	182,406
<b>Total Expenses</b>	<b>1,345,761</b>	<b>750,465</b>	<b>2,096,226</b>	<b>212,467</b>	<b>413,430</b>	<b>582,397</b>	<b>995,827</b>	<b>3,304,520</b>
Less depreciation	(193,238)		(193,238)	(2,102)				(195,340)
Less capital campaign expenses presented separately on the statement of activities and changes in net assets		(750,465)	(750,465)			(582,397)	(582,397)	(1,332,862)
<b>Total Program and Operating Expenses on the Statement of Activities and Changes in Net Assets</b>	<b>\$ 1,152,523</b>	<b>\$ -</b>	<b>\$ 1,152,523</b>	<b>\$ 210,365</b>	<b>\$ 413,430</b>	<b>\$ -</b>	<b>\$ 413,430</b>	<b>\$ 1,776,318</b>

See accompanying notes.

**TOWN HALL ASSOCIATION**

**Statement of Functional Expenses  
For the Year Ended June 30, 2018**

	Program	Capital Campaign Project Costs	Total Program	Management and General	Fundraising	Capital Campaign Fundraising	Total Fundraising	2018 Total
Salaries and wages	\$ 442,227	\$ -	\$ 442,227	\$ 131,846	\$ 186,516	\$ 476,710	\$ 663,226	\$ 1,237,299
Payroll taxes	41,745		41,745	12,390	17,527	44,798	62,325	116,460
Benefits	50,137		50,137	29,251	28,181	58,186	86,367	165,755
Payroll	\$ 534,109	\$ -	\$ 534,109	\$ 173,487	\$ 232,224	\$ 579,694	\$ 811,918	\$ 1,519,514
Production and other events	298,147	1,928	300,075	26	106,028	68,073	174,101	474,202
Printing and advertising	53,641	107,389	161,030	20,110	38,499		38,499	219,639
Bank and loan fees		15,369	15,369	9,006		31	31	24,406
Travel and meals	29	3,159	3,188	20,384	906	7,418	8,324	31,896
Technology, supplies, and office support	20,102	(3,259)	16,843	53,872	15,511	289	15,800	86,515
Depreciation	109,243		109,243	4,600	1,150		1,150	114,993
Professional fees	7,538	490,525	498,063	47,547	80	28,800	28,880	574,490
Insurance		38,446	38,446	34,012				72,458
Occupancy	13,610	91,283	104,893	468	1,371	1,255	2,626	107,987
<b>Total Expenses</b>	<b>1,036,419</b>	<b>744,840</b>	<b>1,781,259</b>	<b>363,512</b>	<b>395,769</b>	<b>685,560</b>	<b>1,081,329</b>	<b>3,226,100</b>
Less depreciation	(109,243)		(109,243)	(4,600)	(1,150)		(1,150)	(114,993)
Less capital campaign expenses presented separately on the statement of activities and changes in net assets		(744,840)	(744,840)			(685,560)	(685,560)	(1,430,400)
<b>Total Program and Operating Expenses on the Statement of Activities and Changes in Net Assets</b>	<b>\$ 927,176</b>	<b>\$ -</b>	<b>\$ 927,176</b>	<b>\$ 358,912</b>	<b>\$ 394,619</b>	<b>\$ -</b>	<b>\$ 394,619</b>	<b>\$ 1,680,707</b>

See accompanying notes.

**TOWN HALL ASSOCIATION**

**Statement of Cash Flows  
For the Year Ended June 30, 2019  
(With Comparative Totals for 2018)**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 10,935,563	\$ 4,931,450
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	195,340	114,993
Amortization of capitalized loan fees	20,006	11,254
Unrealized gain on investments	(45,766)	(29,630)
Loss on disposal of assets	16,236	60,869
Contributions and grants restricted by donors to investment in long-lived assets and endowment	(10,996,623)	(3,687,005)
Decrease (increase) in operating assets:		
Prepaid expenses	(24,919)	(28,207)
Accounts receivable		12,390
Grants and pledges receivable	(50,555)	(52,445)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	135,771	(9,327)
Deferred revenue and deposits	43,494	(7,626)
<b>Net Cash Provided by Operating Activities</b>	<b>228,547</b>	<b>1,316,716</b>
<b>Cash Flows From Investing Activities:</b>		
Change in cash restricted for capital campaign		5,398,213
Purchases of long-term investments	(4,089,716)	(38,878)
Proceeds from sale of investments	13,031	7,940
Purchases of land, building, improvements and equipment	(14,700,687)	(9,690,644)
<b>Net Cash Used in Investing Activities</b>	<b>(18,777,372)</b>	<b>(4,323,369)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from contributions and grants restricted by donors to investment in long-lived assets and endowment	11,539,467	5,472,567
Proceeds from line of credit	4,825,000	
Loan fees capitalized	(27,500)	(30,011)
<b>Net Cash Provided by Financing Activities</b>	<b>16,336,967</b>	<b>5,442,556</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(2,211,858)</b>	<b>2,435,903</b>
<b>Cash and Cash Equivalents:</b>		
Beginning of year	3,784,119	1,348,216
<b>End of Year</b>	<b>\$ 1,572,261</b>	<b>\$ 3,784,119</b>
<b>Supplemental Cash Flow Disclosures:</b>		
Capital additions purchased through construction payables	\$ 1,286,764	\$ 1,480,974
Cash paid for interest, excluding \$75,073 of capitalized construction-period interest	\$ 17,048	\$ -

See accompanying notes.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

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#### Note 1 - Summary of Operations and Significant Accounting Policies

**Description of the Organization** - Town Hall Association (“THA”) is a nonprofit corporation incorporated in the State of Washington, and operates as Town Hall Seattle.

Town Hall Seattle’s mission is to foster an engaged community through civic, arts, and educational programs that reflect and inspire the region’s best impulses: creativity, empathy, and the belief that we all deserve a voice. Presenting or hosting 425+ programs for more than 110,000+ visitors annually, THA is a shared resource for nearly 90 community organizations that rely on the facility as an affordable performance and meeting home, as well as a source of production and promotional support. These community producers create half of the programs appearing on THA’s season calendar.

Town Hall Seattle produces the other 200+ programs annually, spanning science, civics, the arts, and culture. From chamber, world, and family concerts to public policy forums and scientific discovery, THA’s season is a present-tense reflection of life on the Puget Sound. With wide-open doors and deeply affordable ticket prices, THA is where the community comes together to take part, be inspired, and use their voices to shape the future.

Town Hall Seattle is located in a renovated church dating back to 1916. Continuously used and well-maintained for over 80 years, this First Hill landmark was purchased in 1998 from the Fourth Church of Christ Scientist by a group of 16 civic-minded Seattle citizens for conversion into the community culture center it is today. THA transitioned from tenant to landlord, assuming ownership of the building itself in late 2007.

Town Hall Seattle’s building was closed for the majority of the years ended June 30, 2018 and 2019, however events continued to be produced at a variety of venues around Seattle. The program and related production activities are called “Inside/Out”.

**Capital Campaign** - THA is housed in a federally designated historic landmark that turned 100 in 2016. During the year ended June 30, 2019, THA completed work begun in August 2017 to preserve and revitalize THA’s historic building. The capital renovation included significant seismic, structural, and ADA upgrades. It also introduced a climate control system to allow for year round operations, and add a third performance space. The changes prepare the organization for its next century of service to the community through state-of-the-art performance and productions enhancements.

**Basis of Accounting** - The financial statements of THA have been prepared on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America (U.S. GAAP). The significant accounting policies followed by THA are described below to enhance the usefulness of the financial statements to the reader.

**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 THA 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 stipulations that may or will be met by actions of THA and/or the passage of time.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

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#### Note 1 - Continued

Capital campaign contributions are reported as increases in net assets with donor restrictions and then released to net assets without donor restrictions in the period the related asset is placed in service. Other contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized, otherwise they are reported as increases in net assets with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from donor restrictions. Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as increases to net assets with donor restrictions. When the long-lived assets are placed into service, THA reflects the expiration of the donor-imposed restriction as a release of net assets.

**Cash and Cash Equivalents** - For the purpose of the statement of cash flows, cash and cash equivalents include all cash on hand and in banks except for cash associated with the investment accounts. THA maintains its cash in accounts that, at times, exceed the limits insured by the Federal Deposit Insurance Corporation.

**Investments** - Investments are reported at fair value. Realized and unrealized gains and losses are reflected in the statement of activities and changes in net assets.

**Board-Designated Reserve Funds** - Board-designated reserve funds represent cash and investments that the Board of Directors has set aside for operating and long-term reserves.

**Grants and Pledges Receivable** - Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

**Land, Building, Improvements and Equipment** - THA capitalizes assets with an estimated useful life greater than one year. Land, buildings, improvements and equipment are stated at cost if purchased and estimated fair value if donated. Depreciation of buildings, improvements, and equipment is computed using straight-line methods over the following estimated useful lives:

Equipment	3 - 7 years
Furniture	7 years
Building improvements	15 - 27.5 years
Building	40 years

**Federal Income Tax** - THA has been notified by the Internal Revenue Service that it is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

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#### Note 1 - Continued

**Use of Estimates** - The preparation of financial statements in conformity with 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.

**Revenue Recognition** - Ticket and rental revenues are recognized as revenue when they are earned. Advance sales of tickets or advance rental deposits are deferred to the applicable period in which the event occurs. Unconditional promises to give and contributions are recorded at fair value as cash or receivables, and as revenues in the period received, in accordance with donor-imposed restrictions.

**Concentrations of Credit Risk** - THA had three donors representing 51% of grants, pledges and capital campaign pledge receivables and two donors representing 40% of contributions and grants revenue for the year ended June 30, 2019. THA had one donor representing 35% of grants, pledges and capital campaign pledge receivables and two donors representing 27% of contributions and grants revenue for the year ended June 30, 2018.

**Donated Artwork** - Donations of artwork are recorded upon receipt at the established fair value. Artwork is capitalized as an asset and reassessed annually for impaired value.

**Operating and Nonoperating Activities** - All activities are considered operating except for capital and endowment related transactions, and investment income.

**Methods Used for Allocation of Expenses Among Program and Supporting Services** - Whenever possible, THA directly traces expenses to the corresponding function and records them appropriately. Payroll expenses are entered as direct program expenses. Shared expenses that cannot be directly traced, including technology, telephone, office expense, and professional fees, are allocated to functions using headcount as the allocation base. Shared expenses related to the Town Hall building are allocated on the square foot allocation method. In past years, shared expenses were allocated based on salary expenses and square footage, whichever was more appropriate for the particular expense item.

**Adoption of New Accounting Pronouncement** - For the year ended June 30, 2019, THA adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three and recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service. The guidance also enhances disclosures for board designated amounts, liquidity, and expenses by both their national and functional classification.

**TOWN HALL ASSOCIATION**

**Notes to Financial Statements  
For the Year Ended June 30, 2019  
(With Comparative Totals for 2018)**

**Note 1 - Continued**

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 is presented below:

Net Asset Classification	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	\$ 22,644,763	\$ -	\$ 22,644,763
Temporarily restricted		1,028,476	1,028,476
Permanently restricted		30,000	30,000
Net assets as previously presented	22,644,763	1,058,476	23,703,239
Reclassifications to implement ASU 2016-14:			
Capital gifts for construction	(15,517,927)	15,517,927	
<b>Net Assets, As Reclassified, at June 30, 2018</b>	<b>\$ 7,126,836</b>	<b>\$ 16,576,403</b>	<b>\$ 23,703,239</b>

**Summarized Information for Prior Year** - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with THA's audited financial statements for the year ended June 30, 2018, from which the summarized information was derived.

**Subsequent Events** - THA has evaluated subsequent events through October 23, 2019, the date on which the financial statements were available to be issued.

**Note 2 - Promises to Give**

Promises to give as of June 30 are as follows:

	Capital Campaign	Operations	2019 Total	2018 Total
Amounts due in less than one year	\$ 733,144	\$ 179,684	\$ 912,828	\$ 1,236,894
Amounts due in one to five years	53,284		53,284	245,810
	786,428	179,684	966,112	1,482,704
Present value discount (1.0%)	(1,185)		(1,185)	(5,488)
Allowance for uncollectible pledges	(26,674)		(26,674)	(46,674)
	<b>\$ 758,569</b>	<b>\$ 179,684</b>	<b>\$ 938,253</b>	<b>\$ 1,430,542</b>

All pledges to the capital campaign are considered long-term on the statement of financial position, regardless of when they are expected to be collected because they will be expended for long-term purposes.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

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#### Note 3 - Long-Term Investments and Fair Value Measurements

Investments at June 30 were comprised of the following:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 513,111	\$ 3,416
Mutual funds-		
Stock funds	1,189,171	657,262
Bond funds	3,887,663	810,277
Exchange traded funds-		
Stock funds	<u>56,573</u>	<u>53,112</u>
<b>Total Long-Term Investments</b>	<b><u><u>\$ 5,646,518</u></u></b>	<b><u><u>\$ 1,524,067</u></u></b>

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).

Investments valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Investments valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Investments 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. All investments held by THA are valued using Level 1 inputs.

Following is a description of the valuation methodologies used for investments. There have been no changes in the methodologies used at June 30, 2019.

Money Market Funds - Valued at cost plus accrued interest, which approximates fair value.

Mutual Funds and Exchange Traded Funds - Valued at the closing price reported on the active market on which the securities are traded.

Investment return was as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 90,845	\$ 47,879
Unrealized gains	<u>45,766</u>	<u>29,630</u>
<b>Total Investment Return</b>	<b><u><u>\$ 136,611</u></u></b>	<b><u><u>\$ 77,509</u></u></b>

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

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#### Note 4 - Land, Building, Improvements and Equipment

Land, building, improvements and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 3,265,730	\$ 3,265,730
Building and building improvements	28,799,359	1,694,667
Furniture	453,157	220,351
Equipment	1,432,299	368,857
Construction in progress		<u>14,039,240</u>
	33,950,545	19,588,845
Less accumulated depreciation	<u>(1,127,362)</u>	<u>(1,015,070)</u>
<b>Total Land, Building, Improvements and Equipment, Net</b>	<b><u>\$ 32,823,183</u></b>	<b><u>\$ 18,573,775</u></b>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$195,340 and \$114,993, respectively.

#### Note 5 - Line of Credit and Term Note

During the year ended June 30, 2018, THA obtained a line of credit for \$7 million from a bank. The loan was secured with collateral (guarantees) from donors and the long term reserves of THA. The interest rate is 30 day LIBOR plus 1.20%. There was no balance outstanding on the loan as of June 30, 2018. The outstanding balance on the loan at June 30, 2019 was \$4,825,000. The line expired in October 2019 and was repaid partially with \$2.29 million of proceeds from the term note described in the next paragraph and the remainder from cash balances.

Subsequent to fiscal year end, in September 2019 THA entered into a term note with a different bank for \$2.5 million through September 2029. The loan is secured with \$3 million of cash in accounts with the bank, and all property of THA. For the first five years, the interest rate is 4.0%. Thereafter, the interest rate is the lesser of 4.0% or the Federal Reserve's Five-Year Treasury Constant Maturity rate. Monthly payments of \$15,222, including principal and interest, are required through the maturity date of the note. THA is subject to prepayment penalties, and financial and nonfinancial covenants.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

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#### Note 5 - Continued

The future principal payments on the debt outstanding at June 30, 2019 as based on the debt instruments in place as of the date of these financial statements were available to be issued are as follows:

For the Year Ending June 30,

2020	\$ 2,387,831
2021	86,757
2022	90,291
2023	93,970
2024	97,798
Thereafter	<u>2,068,353</u>
Total maturities	4,825,000
Less unamortized debt issuance costs	<u>(31,251)</u>
<b>Net Outstanding Debt</b>	<b><u>\$ 4,793,749</u></b>

#### Note 6 - Forgivable Loans

During the year ended June 30, 2019, THA received financial support from the State of Washington Department of Commerce for capital improvements to its building. The funds, received in the form of forgivable loans, have restrictive covenants and conditions that limit the property to be used only as a theatre. The loans will be forgiven if THA remains in compliance with the restrictive covenants and conditions for ten years. Since THA is currently in compliance with the restrictive covenants and conditions and has no intentions to change the use of these assets, the forgivable loans are treated as contingent liabilities in these financial statements and thus are not recognized as liabilities on the statement of financial position. THA's policy is to record forgivable loans as revenue in the period the proceeds are received. The original loan balance plus accrued interest of 5%, compounded annually, is due generally if THA changes the use of facilities from the intended purpose or if the property is sold or refinanced and removed from acceptable use before the period of restricted use ends. The maximum potential contingent liability under forgivable loans, including accrued interest, is approximately \$2.5 million at June 30, 2019. The compliance periods end through fiscal year 2028.

#### Note 7 - Employee Retirement Benefit Plan

THA has a section 403(b) retirement plan for qualified employees. The plan provides for voluntary employee contributions up to the maximum allowed by federal guidelines. THA provides a matching contribution on employee deferrals of 50% up to a maximum amount of \$2,000 per year. Contributions made to the plan by THA during the years ended June 30, 2019 and 2018, totaled \$31,573 and \$25,042, respectively.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

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#### Note 8 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	<u>2019</u>	<u>2018</u>
<b>Subject to the Passage of Time for Expenditure for Specified Purpose:</b>		
Capital related projects	\$ -	\$ 16,535,496
<b>Endowment Funds (Note 9):</b>		
General endowment - original gifts (corpus)	2,430,000	30,000
Accumulated endowment earnings	<u>64,330</u>	<u>10,907</u>
<b>Total Net Assets With Donor Restrictions</b>	<b><u>\$ 2,494,330</u></b>	<b><u>\$ 16,576,403</u></b>

#### Note 9 - Endowment Funds

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

**Interpretation of Relevant Law** - The Board of Directors of THA has interpreted the Washington State Prudent Management of Institutional Funds Act (PMIFA) as making it advisable for THA to track 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 interpretation, THA classifies as net assets with donor restrictions - corpus (a) the original value of gifts donated to the endowment, and (b) the original value of subsequent gifts to the endowment.

The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions - accumulated earnings until those amounts are appropriated for expenditure by THA in a manner consistent with the standard of prudence prescribed by PMIFA.

In accordance with PMIFA, THA 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 THA 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 THA; and
- The investment policies of THA.

**TOWN HALL ASSOCIATION**

**Notes to Financial Statements  
For the Year Ended June 30, 2019  
(With Comparative Totals for 2018)**

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**Note 9 - Continued**

As of June 30, endowment net assets consisted of the following:

	Endowment Corpus	Accumulated Appreciation	Total
Balance, July 1, 2017	\$ 30,000	\$ 8,548	\$ 38,548
Investment return		2,359	2,359
Balance, June 30, 2018	30,000	10,907	40,907
Endowment contributions	2,400,000		2,400,000
Investment return		53,423	53,423
<b>Balance, June 30, 2019</b>	<b>\$ 2,430,000</b>	<b>\$ 64,330</b>	<b>\$ 2,494,330</b>

**Return Objectives and Risk Parameters** - THA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that THA must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to diversify investments within both equity and fixed-income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

**Strategies Employed for Achieving Objectives** - The investment objectives for the endowment are to manage contributions in a manner that will produce current income to support various programs of THA, thereby maximizing the benefits intended by donors, and to achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets of the endowment, thereby protecting those assets against inflation.

Total return shall be the method for measuring the performance of the endowment. This refers to the combination of income (interest and dividends) and appreciation/depreciation in the fund's value for a certain period of time. The specific financial objective is for total return, less expenses and distributions pursuant to the spending policy for the endowment, to equal or exceed the consumer price index (CPI) for that period. Thus, achievement of this objective will result in real growth in the value of the endowment. Although real growth will not be attained every year due to market fluctuations, it is expected to be attained over a period of time.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - The Board of Directors sets the spending policy for the endowment, expressed as a percentage of market value of the endowment. The percentage shall be determined on a year to year basis by the Board of Directors upon recommendation of the Finance Committee. Distributions from the endowment shall be made on a monthly basis starting in 2019. The amount of each distribution shall equal the spending ratio multiplied by the average market value for the previous three months (sum of market value of the portfolio at each month end divided by three.).

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

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#### Note 9 - Continued

THA has determined the spending ratio for the next five years will be as follows:

2020	10% of the total value at inception
2021	10% of the total value at inception
2022	6% of the total value at inception
2023	6% of the total value at inception
2024	6% of the total value at inception

The value of the endowment at inception is \$2.4 million.

#### Note 10 - Commitments

**Operating Lease Commitment** - THA is obligated under an operating lease for office space used for program, administrative, and fundraising activities, which expires 2024. Future minimum payments under this lease are as follows:

For the Year Ending June 30,

2020	\$	66,280
2021		67,605
2022		68,957
2023		70,337
2024		65,655
Thereafter		
		<hr/>
	\$	<b>338,834</b>

Total rent expense incurred for the years ended June 30, 2019 and 2018 was \$85,020 and \$82,327, respectively.

#### Note 11 - Transfer of Development Potential

Transfer of Development Potential (TDP) represents development rights that can be sold by owners of qualifying properties to new projects being built in the city. During the year ended June 30, 2018, THA sold all of the TDP available on its building's parcel, recognizing \$1,286,991 of net revenue from the sale. THA allocated \$150,000 of the proceeds to operating income, with the rest allocated as nonoperating for the capital campaign.

#### Note 12 - Liquidity and Availability of Financial Assets

THA is supported by a combination of contributed (membership and grants) and earned (tickets, rentals and refreshments) income. Town Hall manages cash by separating operating cash and capital cash in separate checking accounts. As part of THA's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Board of Directors has designated a fund for operating and long-term reserves. Reserve funds are held in checking and investment accounts, which totaled \$1,546,943 and \$1,730,781 as of June 30, 2019 and 2018, respectively.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

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#### Note 12 - Continued

All pledges to the Capital Campaign and funds in Campaign accounts are considered not available for general purposes because they will be expended for the capital project.

THA's endowment consists of two funds established for the general support of operations of THA. As described in Note 9, the endowment has a spending rate set by the Board of Directors annually. As of June 30, 2019, \$240,000 of appropriations from the endowment is expected to be available within the next 12 months.

The following reflects THA's financial assets as of the date of the statement of financial position, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the statement of financial position. Amounts not available include board-designated reserves that could be drawn upon if the governing board approves that action.

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 1,572,261	\$ 3,784,119
Grants and pledges receivable	179,684	129,129
Investments	5,646,518	1,524,067
Capital campaign pledges, net	<u>758,569</u>	<u>1,301,413</u>
Total financial assets	8,157,032	6,738,728
Less amounts not available for general expenditure within 12 months-		
Capital campaign pledges, net	(758,569)	(1,301,413)
Endowment funds	(2,494,330)	(40,907)
Board-designated reserve funds	<u>(1,546,943)</u>	<u>(1,730,781)</u>
<b>Financial Assets Available for General Expenditures Within 12 Months</b>	<b><u>\$ 3,357,190</u></b>	<b><u>\$ 3,665,627</u></b>