TAPROOT THEATRE

Financial Statements

For the Year Ended December 31, 2024

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Clark Nuber PS

Independent Auditor's Report

To the Board of Directors
Taproot Theatre
Seattle, Washington

Opinion

We have audited the financial statements of Taproot Theatre (the Theatre) which comprise the statement of financial position as of December 31, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Theatre as of December 31, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Theatre and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Theatre's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Theatre's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Theatre's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Clark Nuber PS

Certified Public Accountants
August 18, 2025

TAPROOT THEATRE

Statement of Financial Position
December 31, 2024

Assets	
Current Assets:	
Cash and cash equivalents	$ 189,280
Pledge receivables	40,000
Prepaid expenses and deposits	34,999
Total Current Assets	**264,279**
Investments	13,962
Financing lease right-of-use asset	35,331
Property and equipment, net	5,133,565
Total Assets	**$ 5,447,137**
Liabilities and Net Assets	
Current Liabilities:	
Accounts payable	$ 163,087
Accrued expenses	99,209
Advance ticket sales and gift certificates	434,080
Related party loan	40,000
Line of credit	120,000
Current portion of financing lease liability	11,386
Current portion of long-term debt	57,943
Total Current Liabilities	**925,705**
Long-term financing lease liability, net of current portion	24,537
Long-term debt, net of current portion	1,240,734
Total Liabilities	**2,190,976**
Net Assets:	
Without donor restrictions	3,193,169
With donor restrictions	62,992
Total Net Assets	**3,256,161**
Total Liabilities and Net Assets	**$ 5,447,137**

See accompanying notes.

TAPROOT THEATRE

Statement of Activities
For the Year Ended December 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Earned revenue-			
Jewell Mainstage and other productions:			
Box office sales	$ 889,161	$ -	$ 889,161
Subscription sales	400,349		400,349
Isaac Studio sales	84,802		84,802
Education and outreach:			
Touring company	181,269		181,269
Acting studio	154,115		154,115
Investment return	6,847		6,847
Facility rentals and other income	63,696		63,696
Concessions, net of direct expense $48,218	63,286		63,286
Total earned revenue	1,843,525		1,843,525
Contributed revenue-			
Contributions and grants	1,541,264	67,441	1,608,705
Fundraising events, net of direct expenses of $48,881	137,221		137,221
In-kind contributions	9,761		9,761
Net assets released from restrictions	44,449	(44,449)	
Total contributed revenue	1,732,695	22,992	1,755,687
Total Revenue	**3,576,220**	**22,992**	**3,599,212**
Operating Expenses:			
Program services-			
Productions, education, and outreach	2,800,922		2,800,922
Total program services expenses	2,800,922		2,800,922
Supporting services-			
Management and general	591,965		591,965
Fundraising	212,439		212,439
Total supporting services expense	804,404		804,404
Total Operating Expenses	**3,605,326**		**3,605,326**
Change in Net Assets Before Depreciation	**(29,106)**	**22,992**	**(6,114)**
Depreciation	228,118		228,118
Total Change in Net Assets	**(257,224)**	**22,992**	**(234,232)**
Net assets, beginning of year	3,450,393	40,000	3,490,393
Net Assets, End of Year	**$ 3,193,169**	**$ 62,992**	**$ 3,256,161**

See accompanying notes.

TAPROOT THEATRE

Statement of Functional Expenses
For the Year Ended December 31, 2024

	Program Services	Support Services: General and Administrative	Support Services: Fundraising	Support Services: Total Support Services	Total
Payroll, taxes, and benefits	$ 1,994,199	$ 501,820	$ 125,009	$ 626,829	$ 2,621,028
Occupancy expenses	143,075	17,884	17,884	35,768	178,843
Production expenses	248,358				248,358
Office expenses	209,336	38,009	39,787	77,796	287,132
Marketing expenses	98,563				98,563
Interest expense	94,736				94,736
Professional services	12,655	34,252	29,759	64,011	76,666
Total Operating Expenses	**2,800,922**	**591,965**	**212,439**	**804,404**	**3,605,326**
Plus expenses netted against revenues and depreciation on the statement of activities-					
Concessions direct expenses			48,218	48,218	48,218
Fundraising event direct expenses			48,881	48,881	48,881
Deprecation	192,186	11,909	24,023	35,932	228,118
Total Functional Expenses	**$ 2,993,108**	**$ 603,874**	**$ 333,561**	**$ 937,435**	**$ 3,930,543**

See accompanying notes.

TAPROOT THEATRE

Statement of Cash Flows
For the Year Ended December 31, 2024

Cash Flows From Operating Activities:	
Change in net assets	$ (234,232)
Adjustments to reconcile change in net assets	
to net cash provided by operating activities-	
Depreciation	228,118
Realized and unrealized gains on investments	(6,508)
Amortization of right-of-use asset	12,113
Interest on financing lease	(726)
Loan fee amortization	1,429
Cash (used) provided by changes in operating assets and liabilities:	
Pledge receivables	38,993
Prepaid expenses and deposits	27,896
Accounts payable	29,079
Accrued expenses	(15,368)
Advance ticket sales and gift certificates	19,104
Net Cash Provided by Operating Activities	**99,898**
Cash Flows From Investing Activities:	
Purchase of property and equipment	(87,224)
Proceeds from sale of investments	94,362
Net Cash Provided by Investing Activities	**7,138**
Cash Flows From Financing Activities:	
Principal paid on long-term debt	(55,900)
Proceeds from line of credit	30,000
Payments on line of credit	(35,000)
Proceeds from related party loans	78,000
Payments on related party loans	(38,000)
Payments on financing lease	(11,458)
Net Cash Used in Financing Activities	**(32,358)**
Net Change in Cash and Cash Equivalents	**74,678**
Cash and cash equivalents, beginning of year	114,602
Cash and Cash Equivalents, End of Year	**$ 189,280**
Supplementary Disclosure of Cash Flow Information:	
Cash paid during the year for interest	$ 94,736

See accompanying notes.

Note 1 - Organization

Taproot Theatre's ("Taproot" or "the Theatre") mission is to tell stories of hope, serving the Pacific Northwest through live theatre and educational programs. We value faith, we respect people, we celebrate theatre.

From its humble beginnings in 1976 as a touring group, Taproot Theatre is now Seattle's largest mid-size theatre company. Through the Mainstage, Isaac Studio, Acting Studio, and Touring programs, Taproot is dedicated to creating quality art that unites people through the unique power of live storytelling and the relationships that we build and nurture. Strategically located as one of the largest theatres outside Seattle's downtown arts corridor, Taproot strives to become the theatre of choice for North Seattle/Northwest King County.

Taproot generates a shared sense of community and hope for both audiences and artists with stories that amplify the hope, courage, self-sacrifice, love, and redemption in our world.

In addition to the Jewell Mainstage, our ethos has created deeply impactful Education and Outreach programs that reach the greater Seattle area and throughout the state. Taproot's Acting Studio reaches students primarily from North Seattle and Shoreline zip codes. Taproot's Education and Outreach department has also partnered with the Phinney Neighborhood Association's Greenwood Senior Center and the "Momentia" movement in Seattle to create regular dementia friendly programming for Seattle participants with Early-Stage Memory Loss. This one-of-a-kind "Re-Ignite the Mind" program of improv workshops for seniors with early-stage memory loss activates imaginations and counters isolation.

While Taproot is deeply rooted in the local community, the impact of Taproot programming spreads throughout the state with our Road Company touring program that brings bullying prevention strategies and social/emotional learning to K-12 students through its touring plays. We also have a structured internship program that attracts college-age theatre students from across our region and across the country, many of whom have stayed in Seattle to develop as artists and pursue careers in theatre.

Note 2 - Significant Accounting Policies

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:

> <u>Net Assets Without Donor Restrictions</u> - Net assets that are not subject to donor-imposed stipulations.
>
> <u>Net Assets With Donor Restrictions</u> - 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.

Note 2 - Continued

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Theatre considers cash and cash equivalents to include all highly liquid investments purchased with an original maturity of three months or less. At times, balances may exceed federally insured limits. The Theatre has not experienced a credit loss associated with cash investments.

Revenue Recognition and Accounts Receivable -

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

Touring Revenue - Touring revenue is recognized at the point in time when the presentation is held.

Acting Studio - Acting Studio revenue is recognized upon completion of the camp or class.

Contribution and Grant Revenue - The Theatre recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give are not recognized as revenues until the conditions on which they depend have been met. As of December 31, 2024, there were $459,032 in conditional contributions outstanding. 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.

Donated goods are recorded at estimated fair market value when received. Contributed services are recognized at their estimated fair market value if the services have value to the Theatre and require specialized skills, are provided by the individuals possessing those skills, and would have been purchased if not provided by contributors.

Prepaid Expenses - Prepaid expenses primarily represent prepayment of costs for the subsequent year's performances. Expenses are recognized in the year the performance occurs.

Investments - Investments include an agency account with the Seattle Foundation (the Foundation). The Theatre also holds a bond as part of one of its union contracts, which is recorded at fair value. Fair value is estimated as the net asset value (NAV) of the underlying shares in the Foundation's investment pool. Realized and unrealized gain or loss, interest and dividends are included in investment return as earned.

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

Note 2 - Continued

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 $5,000 are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Building	39 years
Building improvements	10 - 39 years
Equipment	5 - 15 years

Advance Ticket Sales and Gift Certificates - Advance ticket sales for future performances are accrued and reported as a liability and are recognized as revenue when performances are completed. Revenue from gift certificates is recognized at the time the gift is redeemed.

The advance ticket sales and gift certificates is comprised of the following at December 31:

	2024	2023
Deferred subscription revenue	$ 354,196	$ 376,010
Deferred box office revenue	63,086	24,660
Gift certificates	16,798	14,306
Total Advanced Ticket Sales and Gift Certificates	**$ 434,080**	**$ 414,976**

Concentrations - At December 31, 2024, 12% of the Theatre's employees are represented by unions with collective bargaining agreements.

Allocation of Functional Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The primary allocation of costs is related to compensation and benefits of employees whose work includes both program service and supporting service components based on estimates of their labor hours. The depreciation expense related to the building and building improvements is allocated based on an estimate of square footage use.

Advertising - The Theatre expenses advertising costs as they are incurred. Total advertising expense for the year ended December 31, 2024 was $98,562.

Federal Income Taxes - The Internal Revenue Service has notified the Theatre that they are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code, except to the extent the Theatre has net income from unrelated business activities. IRC Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. Net rental income from debt financed rental property and gain from loss of debt financed rental property is considered unrelated business income. For the year ended December 31, 2024, there were no income taxes related to unrelated business activities. Accordingly, the Theatre has not recorded a provision or liability for deferred taxes in these financial statements.

Note 2 - Continued

Lease Obligations - The Theatre determines if an arrangement contains a lease at inception. Financing leases are included in ROU assets and lease liabilities in the statement of financial position. ROU assets represent a right to use an underlying asset for the lease term and operating lease liabilities represent the Theatre's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Theatre's leases do not provide an implicit rate of return; thus, the Theatre uses the risk-free discount rate, determined using a period comparable with that of the lease term from the later of the lease commencement date or implementation date.

The ROU asset also includes prepaid lease payments and unamortized initial direct costs and includes lease incentives. The Theatre has lease agreements with lease and non-lease components which are accounted for as a single lease component. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Theatre will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. A ROU asset and operating lease liability is not recognized for leases with an initial term of 12 months or less, or when total lease payments are less than $5,000.

Subsequent Events - The Theatre evaluated subsequent events through August 18, 2025, the date on which the financial statements were available to be issued.

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.

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

> <u>Pooled Investments at Seattle Foundation</u> - Estimated year end fair value of underlying assets as reported by the Seattle Foundation at year end.
>
> <u>Bonds</u> - Valued using bid evaluations from similar instruments in actively traded markets.

Note 3 - Continued

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.

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

	Fair Value Measurements as of December 31, 2024			
	Level 1	Level 2	Level 3	Total
Pooled Investments at Seattle Foundation-Balanced pool	$ -	$ -	$ 6,757	$ 6,757
Bonds		7,205		7,205
Total Investments at Fair Value	**$ -**	**$ 7,205**	**$ 6,757**	**$ 13,962**

Note 4 - Property and Equipment

Property and equipment consisted of the following:

Land	$ 469,117
Building and improvements	6,825,158
Equipment	737,054
Construction in progress	87,225
	8,118,554
Less accumulated depreciation	(2,984,989)
Total Property and Equipment, Net	**$ 5,133,565**

Construction in progress at December 31, 2024, consisted of new seating, carpets, paint, marquee, siding, and security for the Jewell Mainstage. Projects are expected to be placed in service during the year ended December 31, 2025.

Note 5 - Financing Leases

The Theatre leases a copier under a long-term, noncancelable lease agreement which expires in November 2027. The leases include payments for taxes, insurance and use-overages that are considered variable lease payments and are excluded from determining the lease liability.

The components of lease expense for the year ended December 31, 2024 were as follows:

Financing lease cost-		
Amortization of right-of-use asset	$	12,114
Interest on lease liability		1,425
Total Lease Expense	**$**	**13,539**

Supplemental cash flow information related to leases as of December 31, 2024 was as follows:

Cash paid for amounts included in the measurement of lease liabilities-		
Operating cash flows from finance leases	$	1,458
Financing cash flows from finance leases	$	11,745
Weighted-average remaining lease term in years for financing leases		2.92
Weighted-average discount rate - finance lease		3.39%

Future minimum payments required under leases at December 31, 2024 are as follows:

For the Year Ending December 31,		
2025	$	13,203
2026		13,203
2027		11,305
Total undiscounted cash flows		37,711
Less present value discount		(1,788)
Total Lease Liability	**$**	**35,923**

Note 6 - Long-Term Debt and Line of Credit

The Theatre entered into a term loan (the Mortgage) on December 1, 2016 with a ten-year maturity. Monthly payment of principal and interest total $8,815, with interest calculated at 4.75% for the first five years. During the last five years, interest will be adjusted to the US Treasury Constant Maturities rate plus 3.5% (4.79% at December 31, 2024). The remaining balance will be payable on December 1, 2026.

The Mortgage is collateralized by all business assets of the Theatre and a deed of trust on the Theatre's real estate.

The Theatre entered into a vehicle loan on September 23, 2023 with a five-year maturity. Monthly payment of principal and interest total $1,326, with interest at 10.09%. The remaining balance will be payable on September 23, 2028. Subsequent to year end, the loan was paid in full.

Long-term debt as of year end consists of the following:

Principal balance of mortgage payable	$ 1,248,288
Principal balance of vehicle loan	50,389
Less current portion of long-term debt	(57,943)
Long-Term Debt, Net of Current Portion	**$ 1,240,734**

Future maturities are as follows:

For the Year Ending December 31,	
2025	$ 57,943
2026	61,473
2027	65,247
2028	66,474
2029	56,614
Thereafter	990,926
Principal Balance of Long-Term Debt	**$ 1,298,677**

Subsequent to year end on February 4, 2025, the Theatre entered into a new real estate note for $2,000,000 and used the proceeds to pay off the existing mortgage and vehicle loan. The new note with an interest rate of 6.910% has monthly payments of $13,185 starting March 15, 2025 through maturity on February 15, 2030. As part of the new note the Theatre was required to create a new Taproot Theatre Building LLC entity to own the theatre buildings. The LLC will lease the building to the Theatre at no cost.

The Theatre has a line of credit with an available borrowing limit of $120,000 which matures February 3, 2030. Borrowing under the line bears interest at the Wall Street Journal U.S. Prime Rate plus 2% to 4% with a floor of 10.5% (11.5% at December 31, 2024). The outstanding balance on the line of credit at December 31, 2024 was $120,000. Subsequent to year end, this line of credit was renewed through February 3, 2031 with an available borrowing limit of $75,000.

Note 7 - Related Party Transactions

During the year ended December 31, 2024, board members made loans to the Theatre of $78,000 bearing interest of 0% to 4.7%. At December 31, 2024, outstanding loans from board members were $40,000. Subsequent to year end, all board loans were repaid.

Note 8 - Liquidity and Availability of Financial Assets

The Theatre's goals are to have cash and short-term investments equal to 20 days of average operations, and to begin each year with cash available equal to the previous year's subscription presales.

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.

Cash and cash equivalents	$ 189,280
Investments	13,962
Total financial assets	243,242
Less financial assets unavailable for general expenditures- Actors Union Bond	(7,205)
Total Financial Assets Available for General Expenditure Within One Year	**$ 236,037**