

VILLAGE THEATRE
Financial Statements
For the Year Ended August 31, 2025

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Independent Auditor's Report

**To the Board of Directors
Village Theatre
Issaquah, Washington**

Opinion

We have audited the financial statements of Village Theatre (the Theatre), which comprise the statement of financial position as of August 31, 2025, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Theatre as of August 31, 2025, 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 audit 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.

Report on Summarized Comparative Information

We have previously audited the Theatre's August 31, 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 7, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2024 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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.



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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.

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
January 12, 2026

VILLAGE THEATRE

Statement of Financial Position
August 31, 2025
(With Comparative Totals for 2024)

	<u>2025</u>	<u>2024</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,300,015	\$ 3,011,125
Reserved cash (Note 9)	157,438	157,438
Cash held for others	62,451	11,839
Board-designated reserves (Note 4)	1,092,431	1,052,611
Accounts receivable	15,049	20,709
Pledges receivable, net (Note 2)	661,096	558,914
Grants receivable	114,750	178,060
Deferred production costs	998,759	849,930
Other current assets	234,664	224,367
Total Current Assets	5,636,653	6,064,993
Endowment investments (Note 4)	3,327,203	2,883,057
Long-term pledges and grants receivable (Note 2)	205,745	221,360
Pledges and grants restricted for long-term purposes (Note 2)	16,400	18,200
Pledges and grants restricted for endowment (Note 2)	22,000	123,701
Right-of-use assets - operating leases	388,117	447,548
Property and equipment, net of accumulated depreciation (Note 3)	10,202,322	10,278,130
Other long-term assets	15,000	15,000
Total Assets	\$ 19,813,440	\$ 20,051,989
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 372,654	\$ 217,418
Accrued wages and taxes	386,150	349,924
Deposits held in custody for others	62,451	11,839
Deferred revenue	5,374,834	4,969,111
Current portion of operating lease liabilities (Note 8)	73,720	69,075
Notes payable, current portion (Note 5)	62,605	60,314
Total Current Liabilities	6,332,414	5,677,681
Operating lease liabilities, less current portion (Note 8)	318,104	383,173
Notes payable, net of current portion (Note 5)	2,296,770	2,358,642
Total Liabilities	8,947,288	8,419,496
Net Assets:		
Without donor restrictions (Note 10)	6,648,644	7,851,761
With donor restrictions (Note 11)	4,217,508	3,780,732
Total Net Assets	10,866,152	11,632,493
Total Liabilities and Net Assets	\$ 19,813,440	\$ 20,051,989

See accompanying notes.

VILLAGE THEATRE

Statement of Activities and Changes in Net Assets For the Year Ended August 31, 2025 (With Comparative Totals for 2024)

	2025			2024 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating Revenue and Support:				
Revenue-				
Ticket sales	\$ 8,903,975	\$ -	\$ 8,903,975	\$ 6,423,254
Tuition, net scholarships of \$42,503 (2024 - \$55,839)	1,062,257		1,062,257	966,352
Leases and other income	928,121		928,121	797,046
Management fees (Note 7)	186,621		186,621	176,638
Interest income	21,010		21,010	44,183
Total revenue	11,101,984		11,101,984	8,407,473
Operating support-				
Corporate sponsorships and contributions	130,539	50,000	180,539	230,726
Patron contributions	1,742,860	428,565	2,171,425	1,731,466
Foundation support	170,590		170,590	169,468
Government grants	504,450	15,000	519,450	203,309
Fundraising events, gross (Note 6)	970,901	87,400	1,058,301	786,134
In-kind	149,262	13,943	163,205	108,491
Endowment appropriation	134,565		134,565	124,020
Release of donor restrictions	481,419	(481,419)		550,000
Total operating support	4,284,586	113,489	4,398,075	3,903,614
Total Operating Revenue and Support	15,386,570	113,489	15,500,059	12,311,087
Expenses:				
Production and program	14,593,131		14,593,131	12,199,333
General and administrative	1,613,963		1,613,963	1,513,053
Fundraising	732,273		732,273	677,714
Total Expenses	16,939,367		16,939,367	14,390,100
Change in Net Assets From Operating Activities	(1,552,797)	113,489	(1,439,308)	(2,079,013)

See accompanying notes.

VILLAGE THEATRE

Statement of Activities and Changes in Net Assets (Continued)
For the Year Ended August 31, 2025
(With Comparative Totals for 2024)

	2025			
	Without Donor Restrictions	With Donor Restrictions	Total	2024 Total
Nonoperating Activities:				
Government grants	292,922		292,922	
Nonoperating expense	(2,217)		(2,217)	
Board-designated reserves investment return	39,819		39,819	64,374
Release of board-designated reserves (Note 1 and 10)				(550,000)
Total Nonoperating Activities	330,524		330,524	(485,626)
Endowment Activities (Note 12):				
Patron contributions		125,397	125,397	5,526
Endowment expense		(250)	(250)	
Endowment appropriation	(12,063)	(122,502)	(134,565)	(124,020)
Investment return	31,219	320,642	351,861	435,324
Total Endowment Activities	19,156	323,287	342,443	316,830
Total Change in Net Assets From Nonoperating Activities	349,680	323,287	672,967	(168,796)
Total Change in Net Assets	(1,203,117)	436,776	(766,341)	(2,247,809)
Net assets, beginning of year	7,851,761	3,780,732	11,632,493	13,880,302
Net Assets, End of Year	\$ 6,648,644	\$ 4,217,508	\$ 10,866,152	\$ 11,632,493

See accompanying notes.

VILLAGE THEATRE

Statement of Functional Expenses For the Year Ended August 31, 2025 (With Comparative Totals for 2024)

	Production and Program	General and Administrative	Fundraising	2025 Total	2024 Total
Salaries and employee benefits	\$ 10,440,741	\$ 903,868	\$ 457,990	\$ 11,802,599	\$ 10,068,485
Rights and royalties	871,349		5	871,354	669,354
Advertising	799,896	4,830	15,151	819,877	752,085
Sets and costumes	521,583	106		521,689	395,165
Depreciation	402,650	55,452	13,916	472,018	476,023
Facility, equipment rental, and maintenance	376,136	64,474	5,166	445,776	441,354
Charge card fees	363,135	6,216	19,675	389,026	282,229
Travel, meals, and accommodations	284,682	11,323	63,922	359,927	292,699
Data processing and IT	33,364	257,645	4,948	295,957	273,081
Utilities	189,121	15,792	4,174	209,087	193,017
Supplies	111,786	60,238	1,024	173,048	128,062
Professional fees	41,705	122,071		163,776	83,215
Insurance	90,817	5,922	2,664	99,403	89,271
Event catering and supplies			96,025	96,025	83,638
Interest and loan fees	34,717	59,062		93,779	83,248
Change in estimate of allowance for doubtful accounts		8,281	45,371	53,652	3,060
Training and dues	6,017	25,564		31,581	42,279
Government taxes and fees	10,183	8,113		18,296	17,637
Postage and printing	9,820	3,872	2,242	15,934	9,200
Miscellaneous	5,429	1,134		6,563	6,998
Total Functional Expenses	\$14,593,131	\$ 1,613,963	\$ 732,273	\$ 16,939,367	
2024 Total Functional Expenses	<u>\$12,199,333</u>	<u>\$ 1,513,053</u>	<u>\$ 677,714</u>		<u>\$14,390,100</u>

See accompanying notes.

VILLAGE THEATRE

Statement of Cash Flows For the Year Ended August 31, 2025 (With Comparative Totals for 2024)

	2025	2024
Cash Flows From Operating Activities:		
Change in net assets	\$ (766,341)	\$ (2,247,809)
Adjustments to reconcile change in net assets		
to net cash used in operating activities-		
Depreciation	472,018	476,023
Amortization of loan fees	416	1,694
Contributions for capital assets or endowment	(418,319)	(5,526)
Gain on investments	(326,677)	(413,674)
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	5,660	3,324
Pledges receivable	(86,567)	(270,239)
Grants receivable	63,310	496,370
Deferred production costs	(148,829)	(36,980)
Other assets	(10,297)	27,537
Accounts payable	167,570	(99,710)
Accrued wages and taxes	36,226	36,321
Accrued interest		(7,890)
Deposits held in custody for others	50,612	(280)
Deferred revenue	405,723	1,518,962
Lease liabilities, net of right-of-use assets	(993)	(1,218)
Net Cash Used in Operating Activities	(556,488)	(523,095)
Cash Flows From Investing Activities:		
Purchase of investments	(2,056,869)	(2,703,566)
Proceeds from sale of investments	1,899,580	3,256,620
Purchase of property and equipment	(408,544)	(421,273)
Net Cash (Used in) Provided by Investing Activities	(565,833)	131,781
Cash Flows From Financing Activities:		
Proceeds from contributions for endowment and the purchase of property and equipment	521,820	34,526
Principal payments on notes payable	(59,997)	(57,784)
Proceeds from line of credit	500,000	
Payments on line of credit	(500,000)	
Net Cash Provided by (Used in) Financing Activities	461,823	(23,258)
Net Change in Cash and Cash Equivalents	(660,498)	(414,572)
Cash and cash equivalents, beginning of year	3,180,402	3,594,974
Cash and Cash Equivalents, End of Year	\$ 2,519,904	\$ 3,180,402
Reconciliation to Statement of Financial Position:		
Cash and cash equivalents	\$ 2,300,015	\$ 3,011,125
Reserved cash	157,438	157,438
Cash held for others	62,451	11,839
Total Cash, Cash Equivalents, and Restricted Cash Shown in the Statement of Cash Flows	\$ 2,519,904	\$ 3,180,402
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 88,147	\$ 88,021
Property and equipment purchases included in accounts payable	\$ 21,495	\$ 33,829
See accompanying notes.		

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2025 (With Comparative Totals for 2024)

Note 1 - Organization and Significant Accounting Policies

Organization - Village Theatre (the Theatre) is a Washington nonprofit corporation that produces live dramatic performances in Issaquah and Everett, Washington. It is the Theatre's mission to be a regionally recognized and nationally influential center of excellence in family theatre by promoting a season of top quality productions, commissioning and producing new musicals that achieve national exposure, training young people in theatre skills, developing appreciation for live theatre and promoting positive values through art.

During the year ended August 31, 2025, the Theatre was able to continue live performances; however, several performances throughout the year were cancelled due to COVID-19 cases within a production and severe weather that caused loss of power, resulting in lost revenue.

Village Theatre saw increased subscription and single ticket growth during the 2024-2025 season; however subscriber numbers are still well below pre-COVID levels. Funding support, such as the Paycheck Protection Program or the Shuttered Venue Operators Grant, that helped to provide major operating support are no longer available. As new revenue models and funding opportunities are being explored, the full extent of the COVID-19 pandemic on future audience attendance and donor support is still uncertain.

Basis of Presentation - Net assets, 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. The Theatre's net assets without donor restrictions result from transactions for services and programs sponsored by the Theatre and receipt of grants and gifts without donor restrictions. It is the Theatre's policy to record contributions with donor restrictions as net assets without donor restrictions when the restriction is satisfied in the same accounting period as received.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by actions of the Theatre and/or the passage of time, and net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Theatre.

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 and 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 net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

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.

Federal Income Taxes - The Internal Revenue Service (IRS) has determined that the Theatre is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

VILLAGE THEATRE

**Notes to Financial Statements
For the Year Ended August 31, 2025
(With Comparative Totals for 2024)**

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.

Board-Designated Reserves - The Theatre has designated a portion of its contributions without donor restrictions as board-designated reserves. The associated investments are shown as board-designated reserves on the statement of financial position. The reserves are to be used for operations and are subject to the Finance Committee of the Board's approval prior to expenditure.

Revenue Recognition -

Subscriptions and Single Tickets - The Theatre presents theatre performances and earns revenue from ticket sales. Tickets are sold in subscription packages and as single tickets and are generally purchased by customers in advance of the performances. Service fees are processed as a portion of ticket sales.

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.

Contribution Revenue - The Theatre recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give are not recognized as revenues until the conditions on which they depend have been met. There were \$497,998 and \$603,310 in outstanding conditional contributions as of August 31, 2025 and 2024, respectively. These contributions will be used to build a storage warehouse and building improvements to the Francis J. Gaudette Theatre. 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.

Tuition Revenue - The Theatre hosts various youth education programs throughout the year and earns tuition revenue from those programs. Tuition is generally paid by customers either in advance of the related program dates or during the program's time frame. The Theatre's performance obligation for tuition balances paid is to provide the related youth education program to each student. Revenue from tuition for youth education programs is recognized at the time when the program occurs.

In-Kind Contributions - A substantial number of volunteers, including members of the Board of Directors, have made significant contributions of time to the Theatre. The value of this contributed time does not meet the criteria for recognition under current accounting standards, and accordingly, is not reflected in the accompanying financial statements.

Certain donated professional services, formally documented and charged to the relevant projects, are recorded in the accompanying financial statements. These services are primarily for performer travel and fundraising which are valued based on what the Theatre would have paid for these services in the market had they not been contributed. Contributions of materials recorded in the current year, based on the market values at the time of contribution, have also been recorded. Donated materials consist primarily of food donated for special events, computers, office furniture, and fundraising materials, which are used in operations.

VILLAGE THEATRE

Notes to Financial Statements
For the Year Ended August 31, 2025
(With Comparative Totals for 2024)

Note 1 - Continued

The value of donated goods and services included in the financial statements and the corresponding expenses for the years ended August 31 were as follows:

	2025	2024
Donated catering, travel, and printing	\$ 117,565	\$ 81,533
Donated materials	<u>45,640</u>	<u>26,958</u>
	<u>\$ 163,205</u>	<u>\$ 108,491</u>

Allocation of Functional Expenses - Certain costs incurred by the Theatre have been allocated among production and program, general and administrative, and fundraising based on estimates and evaluations made by management. These costs have been summarized on a functional basis in the statement of functional expenses. Costs are directly charged to the functions they benefit. Salaries are charged to functions directly based on time incurred. Facility expenses are allocated to each function based on square footage utilized by the function.

Deferred Revenue and Production Costs - Advanced ticket sales and the related production costs are deferred and recognized as income and expense as performances are staged. Deferred revenue also includes approximately \$81,000 and \$77,000 in unredeemed gift certificates at August 31, 2025 and 2024, respectively.

Advertising - The Theatre's advertising expense represents all marketing costs including, but not limited to printing, direct mail, paid media, and photography. Costs related to the following year's season are expensed as incurred. Total advertising expense for the years ended August 31, 2025 and 2024, was \$819,877 and \$752,085, respectively.

Receivables - Accounts, pledges, and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts, pledges or grants receivable. There was no valuation allowance for accounts or grants receivable at August 31, 2025 and 2024. See Note 2 for allowance for doubtful accounts for pledges receivable.

Investments - Investments in mutual funds, exchange-traded funds, corporate bonds, U.S. Treasury notes, and money market funds with readily determinable market values are recorded at fair value (Note 4). Unrealized and realized gains and losses on investments are reported on the statement of activities and changes in net assets.

Property and Equipment - The Theatre's buildings and improvements, furniture and equipment, and vehicles are stated at cost if purchased, or fair value on the date of receipt if contributed. All property and equipment other than buildings are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from three to 25 years. Buildings are depreciated on a straight-line basis over 40 to 50 years. Leasehold improvements are depreciated over the shorter of the asset's useful life or the remaining life of the lease.

The Theatre capitalizes property and equipment with individual costs in excess of \$5,000 and a useful life extending beyond one year. All other property and equipment not meeting these criteria is expensed as incurred.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2025 (With Comparative Totals for 2024)

Note 1 - Continued

Operating Leases - The Theatre determines if an arrangement contains a lease at inception. Operating leases are included in right-of-use (ROU) assets and lease liabilities in 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. 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 \$20,000.

Financial Instruments and Credit Risk Concentration - The Theatre holds substantially all of its cash and cash equivalents with financial institutions with balances that may, at times, exceed federally insured deposit limits.

Loan Fees - Loan fees are recorded as a direct deduction to the related note payable on the statement of financial position (Note 5).

Nonoperating Activity - The Theatre presents activity associated with certain government grants, capital campaigns, endowments, board-designated reserves, and other immaterial nonoperating expenses as nonoperating activities on the statement of activities and changes in net assets.

Reclassifications - Certain items from the prior-year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no impact on net assets or changes in net assets previously reported.

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 the Theatre's financial statements for the year ended August 31, 2024, from which the summarized information was derived.

Subsequent Events - The Theatre has evaluated subsequent events through January 12, 2026, the date on which the financial statements were available to be issued.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2025 (With Comparative Totals for 2024)

Note 2 - Pledges Receivable

Pledges receivable are unconditional promises to give. Pledges for investment in long-term assets are classified as long-term on the statement of financial position regardless of how soon they are expected to be collected. Long-term pledges are discounted in the year they are received. Future collections of pledges receivable at August 31 were expected as follows:

	2025	2024
Receivables due in less than one year	\$ 729,396	\$ 725,715
Receivables due in one to five years	215,290	232,320
Less allowance for doubtful pledges	(29,900)	(24,900)
Less present value discount (0.92% - 5.07%)	<u>(9,545)</u>	<u>(10,960)</u>
Total Pledges Receivable	<u>\$ 905,241</u>	<u>\$ 922,175</u>

Reconciliation to amounts on the statement of financial position:

	2025	2024
Current pledges receivable	\$ 661,096	\$ 558,914
Long-term pledges and grants receivable	205,745	221,360
Pledges and grants restricted for long-term purposes	16,400	18,200
Pledges and grants restricted for endowment	<u>22,000</u>	<u>123,701</u>
Total Pledges Receivable	<u>\$ 905,241</u>	<u>\$ 922,175</u>

Note 3 - Property and Equipment

Property and equipment was comprised of the following at August 31:

	2025	2024
Land	\$ 2,216,626	\$ 2,216,626
Buildings and improvements	14,069,245	13,758,792
Theatre equipment	2,200,053	2,169,606
Office equipment, furniture, and fixtures	1,470,630	1,415,320
Vehicles	34,495	34,495
Construction in progress	<u>61,763</u>	<u>61,763</u>
 Less accumulated depreciation	 <u>20,052,812</u>	 <u>19,656,602</u>
 Total Property and Equipment, Net	 <u>\$ 10,202,322</u>	 <u>\$ 10,278,130</u>

VILLAGE THEATRE

Notes to Financial Statements
For the Year Ended August 31, 2025
(With Comparative Totals for 2024)

Note 4 - Investments and Fair Value Measurements

The Theatre has the following investments as of August 31:

	2025	2024
Investments at fair value-		
Money market funds	\$ 193,652	\$ 170,868
Exchange-traded funds	2,450,634	2,187,438
Equity mutual funds	113,586	96,455
U.S. Treasury notes	1,387,707	1,010,298
Corporate bonds	<u>249,405</u>	<u>451,605</u>
Total investments at fair value	4,394,984	3,916,664
 Investment in life insurance policy valued using lower of cost or fair value		
	<u>24,650</u>	<u>19,004</u>
 Total Investments	<u>\$ 4,419,634</u>	<u>\$ 3,935,668</u>
 Reconciliation to Statement of Financial Position:		
Board-designated reserves (Note 4)	\$ 1,092,431	\$ 1,052,611
Endowment investments	<u>3,327,203</u>	<u>2,883,057</u>
	<u>\$ 4,419,634</u>	<u>\$ 3,935,668</u>
 Return on investments-		
Operating interest income	\$ 21,010	\$ 44,183
Board-designated reserves investment return	39,819	64,374
Endowment investment return	<u>351,861</u>	<u>435,324</u>
 Total Return on Investments	<u>\$ 412,690</u>	<u>\$ 543,881</u>

U.S. GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy under U.S. GAAP are described as follows:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2025 (With Comparative Totals for 2024)

Note 4 - Continued

Level 3 - Unobservable inputs that are significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2025 and 2024.

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

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

Equity Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value of shares held by the Theatre at year end.

U.S. Treasury Notes - Valued using quoted market prices in active markets.

Corporate Bonds - Valued using matrix pricing or market-corroborated pricing inputs such as yield curves of indices.

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's management 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 investment and fair values of assets measured on a recurring basis were as follows:

	Fair Value Measurements as of August 31, 2025				Total
	Level 1	Level 2	Level 3		
Money market funds	\$ 193,652	\$ -	\$ -	\$ 193,652	
Exchange-traded funds	2,450,634				2,450,634
Equity mutual funds	113,586				113,586
U.S. Treasury notes	1,387,707				1,387,707
Corporate bonds		249,405			249,405
Total Investments in the Fair Value Hierarchy	\$ 4,145,579	\$ 249,405	\$ -	\$ 4,394,984	

VILLAGE THEATRE

**Notes to Financial Statements
For the Year Ended August 31, 2025
(With Comparative Totals for 2024)**

Note 4 - Continued

	Fair Value Measurements as of August 31, 2024				Total
	Level 1	Level 2	Level 3		
Money market funds	\$ 170,868	\$ -	\$ -	\$ 170,868	
Exchange-traded funds	2,187,438				2,187,438
Equity mutual funds	96,455				96,455
U.S. Treasury notes	1,010,298				1,010,298
Corporate bonds		451,605			451,605
Total Investments in the Fair Value Hierarchy	\$ 3,465,059	\$ 451,605	\$ -	\$ 3,916,664	

Note 5 - Line of Credit and Notes Payable

Line of Credit - The Theatre had a line of credit agreement with an available limit of \$1,500,000 and a variable interest rate of prime with a floor of 5.5%. The line was secured by a deed of trust on the Technical Studio and matured in July 2024. In November 2024, the Theatre secured a new line of credit agreement with an available limit of \$1,500,000 and a variable interest rate of daily SOFR plus 2.875%. The line is secured by pledged accounts held by the lender. The Theatre did not have an outstanding balance at August 31, 2025. Subsequent to year end the limit on the line was increased to \$2,500,000.

Notes Payable - The Theatre has the following notes payable as of August 31:

	2025	2024
Note payable to Heritage Bank in the initial amount of \$1,045,000; bears interest at a fixed rate of 6.375%; monthly payments of principal and interest of \$3,196; secured by a deed of trust on the apartment building; matures in September 2028.	\$ 459,124	\$ 467,494
Note payable to the U.S. Small Business Administration in the initial amount of \$150,000, additional borrowing in March 2022 increased loan balance to \$2,000,000; bears interest at a fixed rate of 2.75%; monthly payments of \$8,750 started as of August 2023 and are first applied to accrued interest, thereafter applied to principal and interest; secured by deed of trust on Theatre building; matures in June 2050.	1,901,504	1,953,131
Total notes payable	2,360,628	2,420,625
Less unamortized loan fees	(1,253)	(1,669)
Less current portion	(62,605)	(60,314)
Long-Term Portion of Notes Payable	\$ 2,296,770	\$ 2,358,642

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2025 (With Comparative Totals for 2024)

Note 5 - Continued

The Theatre is subject to certain restrictive covenants under its note payable to Heritage Bank. The Theatre was not in compliance with the Heritage Bank covenants as of August 31, 2025 and 2024. Heritage Bank provided waivers for the years ended August 31, 2025 and 2024.

Future principal payments on the notes payable are as follows:

For the Year Ending August 31,

2026	\$ 62,605
2027	64,401
2028	65,706
2029	488,542
2030	61,077
Due thereafter	<u>1,618,297</u>
	2,360,628
Less unamortized loan fees	<u>(1,253)</u>
	<u>\$ 2,359,375</u>

Note 6 - Fundraising Events

The Theatre conducted the following major fundraising events during the years ended August 31:

	Gala and Auction	Sing It Forward	2025	2024
Gross revenues	\$ 836,346	\$ 134,555	\$ 970,901	\$ 735,634
Event expenses	<u>(122,295)</u>	<u>(17,167)</u>	<u>(139,462)</u>	<u>(86,612)</u>
Excess of Fundraising Revenues Over Expenses	\$ 714,051	\$ 117,388	\$ 831,439	\$ 649,022

Fundraising events for the years ended August 31, 2025 and 2024, included Sing It Forward and the Gala and Auction. The expenses above do not account for all fundraising expenses incurred by the Theatre for the years ended August 31, 2025 or 2024, and the revenues represent the revenues without donor restrictions recorded in the current year and the release of revenues with donor restrictions recorded in the prior year associated with the event.

VILLAGE THEATRE

**Notes to Financial Statements
For the Year Ended August 31, 2025
(With Comparative Totals for 2024)**

Note 7 - Everett Performing Arts Center

The Theatre has an agreement with the City of Everett (the City) to carry out the administrative duties of running the Everett Performing Arts Center (the Center), along with presenting a season of its own theatrical productions at the Center. The agreement with the City is effective through December 2027. The contract allows the Theatre to retain third-party rental income and facility fees with a management fee of \$12,500 per month for the first 16 months, and inflation-adjusted amounts for the remainder of the contract. The monthly management fee as of August 31, 2025 and 2024 was \$15,772 and \$15,110, respectively.

Note 8 - Leases

Operating Leases - The Theatre leases theatre space and equipment under long-term, noncancelable lease agreements which expire at various dates through 2031. The theatre space lease includes renewal options ranging up to five years that are included in the lease liability as it is reasonably certain the options will be exercised.

The components of lease expense for the year ended August 31 were as follows:

	<u>2025</u>	<u>2024</u>
Operating lease cost	\$ 93,191	\$ 87,952
Short-term and other lease costs	<u>103,230</u>	<u>99,729</u>
Total Leasing Expense	<u>\$ 196,421</u>	<u>\$ 187,681</u>

Supplemental cash flow information related to leases as of August 31 was as follows:

	<u>2025</u>	<u>2024</u>
Cash paid for amounts included in the measurement of lease liabilities-		
Operating cash flows from operating leases	\$ 89,211	\$ 86,768
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 9,330	\$ 4,021
Weighted-average remaining lease term - operating leases	5.10	6.05
Weighted-average discount rate - operating leases	4.65%	4.64%

VILLAGE THEATRE

Notes to Financial Statements
For the Year Ended August 31, 2025
(With Comparative Totals for 2024)

Note 8 - Continued

At August 31, 2025, future minimum rental payments under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2026	\$ 90,102
2027	90,102
2028	90,102
2029	67,770
2030	67,770
Thereafter	<u>33,885</u>
 Total undiscounted cash flows	439,731
Less present value discount	<u>(47,907)</u>
 Total Lease Liabilities	<u>\$ 391,824</u>

Operating Lessor Arrangements - The Theatre has tenants who lease office space and retail space at the Francis J. Gaudette Theatre, with terms that expire through 2030. Total rental revenue for the years ended August 31, 2025 and 2024, was \$224,123 and \$215,426, respectively.

At August 31, 2025, future minimum rental receipts for the next five years under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2026	\$ 158,728
2027	87,457
2028	87,457
2029	87,457
2030	<u>72,882</u>
 \$ 493,981	

Note 9 - Commitments and Contingencies

Pension Plan - The Theatre maintains an employee self-directed retirement plan (the Plan) under Internal Revenue Code Section 403(b) which covers employees who meet certain eligibility requirements. The Theatre matches 50% of employee contributions up to 3% of the employees' base salary. During the years ended August 31, 2025 and 2024, employer contributions of \$45,495 and \$48,387, respectively, were contributed to the Plan.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2025 (With Comparative Totals for 2024)

Note 9 - Continued

Labor Contracts - The Theatre has several multi-year collective bargaining agreements with specific local unions that cover the work of their musicians, stage crews and other production staff. They also participate in national labor agreements covering the work of their actors and stage managers, directors, and designers. All of these agreements include specific stipulations covering working conditions, wage rates, and benefit percentages including health and welfare and pension. These agreements have various ending dates through 2028. These relationships are core to the Theatre's ability to produce theatre, and management works closely with union representatives throughout the contract periods to facilitate timely renewal of all contracts.

As part of the Theatre's contract with the Actors' Equity Association, the Theatre is also required to secure cash reserves equal to a defined percentage of season salary contracts. The amount was \$125,356 at August 31, 2025 and is reported as reserved cash on the statement of financial position. Subsequent to year end, the Actors' Equity Association determined the amount to be \$98,609 for the 2025/26 season.

Note 10 - Net Assets Without Donor Restrictions

Net assets without donor restrictions consist of the following at August 31:

	2025	2024
Board-designated reserves for operations	\$ 1,092,431	\$ 1,052,611
Board-designated quasi-endowment	295,902	276,746
Undesignated	<u>5,260,311</u>	<u>6,522,404</u>
	<u>\$ 6,648,644</u>	<u>\$ 7,851,761</u>

Note 11 - Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at August 31:

	2025	2024
Subject to the passage of time or expenditure for specified purposes-		
Operations and productions	\$ 168,279	\$ 116,500
Capital projects	347,810	347,810
Restricted for use in future periods	648,118	586,410
Accumulated unspent earnings on endowment	918,377	720,236
Endowment funds-		
General endowment	1,139,620	1,035,481
Mainstage endowment	126,050	106,050
Youth education endowment	709,309	606,599
Village Originals endowment	137,945	137,945
Pledges receivable for endowment	<u>22,000</u>	<u>123,701</u>
	<u>\$ 4,217,508</u>	<u>\$ 3,780,732</u>

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2025 (With Comparative Totals for 2024)

Note 12 - Endowment Funds

The Theatre's endowments consist of funds with donor restrictions established for general operations, mainstage, youth education, Village Originals, and a board-designated quasi-endowment. 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 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 endowment funds with donor restrictions, absent explicit donor stipulations to the contrary. As a result of this determination, the Theatre classifies as net assets restricted in perpetuity (a) the original value of the gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Board 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 appreciation of investments;
- Other resources of the Theatre; and
- The investment policies of the Theatre.

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. In accordance with U.S. GAAP, deficiencies of this nature are reported as net assets with donor restrictions. There were no deficiencies as of August 31, 2025 and 2024.

Return Objectives and Risk Parameters - The Theatre has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Theatre must hold in perpetuity or for donor-specified periods.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate of return objectives, the Theatre relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield, such as interest and dividends. The expected time horizon of the endowment funds is at least ten years.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2025 (With Comparative Totals for 2024)

Note 12 - Continued

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Theatre has a policy of appropriating for distribution each year a maximum of 5% of its endowment fund's total fair value over the prior three years rolling average. This is consistent with the Theatre's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Changes to endowment, excluding outstanding pledges, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds, September 1, 2023	\$ 246,479	\$ 2,290,748	\$ 2,537,227
Endowment investment return	42,379	392,945	435,324
Contributions and collections on pledges		34,526	34,526
Endowment appropriations	(12,112)	(111,908)	(124,020)
Endowment Funds, August 31, 2024	276,746	2,606,311	2,883,057
Endowment investment return	31,219	320,642	351,861
Contributions and collections on pledges		226,850	226,850
Endowment appropriations	(12,063)	(122,502)	(134,565)
Endowment Funds, August 31, 2025	\$ 295,902	\$ 3,031,301	\$ 3,327,203

Separate categories of endowment funds within the endowment are comprised of the following at August 31, 2025:

	Corpus	Accumulated Unspent Earnings	Total
General endowment	\$ 1,139,620	\$ 674,288	\$ 1,813,908
Mainstage endowment	126,050	15,803	141,853
Youth education endowment	709,309	172,968	882,277
Village Originals endowment	137,945	55,318	193,263
Board-designated quasi-endowment	238,000	57,902	295,902
	\$ 2,350,924	\$ 976,279	\$ 3,327,203

VILLAGE THEATRE

Notes to Financial Statements
For the Year Ended August 31, 2025
(With Comparative Totals for 2024)

Note 13 - Liquidity and Availability of Financial Assets

The Theatre's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for prepaid subscription revenue in the fourth quarter of the fiscal year in advance of the next year and a concentration of contributions received near calendar year end and fiscal year end. Monthly cash outflows vary each year based on the specific requirements of the productions programmed that season. The Theatre also has board-designated cash reserves that it can draw upon (Note 1).

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

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 2,300,015	\$ 3,011,125
Accounts receivable	15,049	20,709
Pledges receivable, net	905,241	922,175
Grants receivable	114,750	178,060
Endowment investments	<u>3,327,203</u>	<u>2,883,057</u>
 Total financial assets, excluding restricted cash*	 6,662,258	 7,015,126
 Contractual or donor-imposed restrictions-		
Endowment investments	(3,327,203)	(2,883,057)
Program restricted and time restricted beyond one year net assets	<u>(704,528)</u>	<u>(771,070)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 2,630,527	 3,360,999
 Assets available with board approval-		
Board-designated reserves	<u>1,092,431</u>	<u>1,052,611</u>
 Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year With Board Approval	 <u>\$ 3,722,958</u>	 <u>\$ 4,413,610</u>

* Restricted cash includes reserved cash, cash held for others, and board designated reserves.