

Main Street Theater Houston

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2019 and 2018

Main Street Theater Houston

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Independent Auditors' Report

To the Board of Directors of
Main Street Theater Houston:

We have audited the accompanying financial statements of Main Street Theater Houston, which comprise the statements of financial position as of August 31, 2019 and 2018 and the related statements of activities, of functional expenses, and of cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Main Street Theater Houston as of August 31, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Main Street Theater Houston adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended August 31, 2019. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended August 31, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

December 2, 2019

Main Street Theater Houston

Statements of Financial Position as of August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 327,118	\$ 51,737
Prepaid expenses and other assets	131,858	109,373
Contributions receivable	128,750	95,578
Property held for sale <i>(Note 4)</i>	131,250	
Property, net <i>(Note 4)</i>	<u>2,859,338</u>	<u>3,011,509</u>
TOTAL ASSETS	<u>\$ 3,578,314</u>	<u>\$ 3,268,197</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 57,228	\$ 70,423
Deferred revenue	182,314	156,341
Due to Costume Connection Houston <i>(Note 5)</i>	160,700	
Notes payable <i>(Note 6)</i>	<u>1,035,000</u>	<u>1,085,000</u>
Total liabilities	<u>1,435,242</u>	<u>1,311,764</u>
Net assets:		
Without donor restrictions	1,929,322	1,926,433
With donor restrictions <i>(Note 7)</i>	<u>213,750</u>	<u>30,000</u>
Total net assets	<u>2,143,072</u>	<u>1,956,433</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,578,314</u>	<u>\$ 3,268,197</u>

See accompanying notes to financial statements.

Main Street Theater Houston

Statement of Activities for the year ended August 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 960,399	\$ 204,500	\$ 1,164,899
Ticket sales	1,120,060		1,120,060
Tuition	414,228		414,228
Special events	74,562		74,562
Cost of direct donor benefits	(14,597)		(14,597)
Other income	46,628		46,628
Total revenue	2,601,280	204,500	2,805,780
Net assets released from restrictions:			
Satisfaction of program restrictions	20,750	(20,750)	
Total	2,622,030	183,750	2,805,780
EXPENSES:			
Program services	2,056,365		2,056,365
Marketing and sales	285,017		285,017
Management and general	191,074		191,074
Fundraising	86,685		86,685
Total expenses	2,619,141		2,619,141
CHANGES IN NET ASSETS	2,889	183,750	186,639
Net assets, beginning of year	1,926,433	30,000	1,956,433
Net assets, end of year	\$ 1,929,322	\$ 213,750	\$ 2,143,072

See accompanying notes to financial statements.

Main Street Theater Houston

Statement of Activities for the year ended August 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 564,386	\$ 84,000	\$ 648,386
Ticket sales	1,207,273		1,207,273
Tuition	506,391		506,391
Special events	119,188		119,188
Cost of direct donor benefits	(17,071)		(17,071)
Net investment return		1,274	1,274
Other income	38,461		38,461
Total revenue	2,418,628	85,274	2,503,902
Net assets released from restrictions:			
Satisfaction of program restrictions	145,843	(145,843)	
Total	2,564,471	(60,569)	2,503,902
EXPENSES:			
Program services	2,297,777		2,297,777
Marketing and sales	304,673		304,673
Management and general	172,451		172,451
Fundraising	79,583		79,583
Total expenses	2,854,484		2,854,484
CHANGES IN NET ASSETS	(290,013)	(60,569)	(350,582)
Net assets, beginning of year	2,216,446	90,569	2,307,015
Net assets, end of year	\$ 1,926,433	\$ 30,000	\$ 1,956,433

See accompanying notes to financial statements.

Main Street Theater Houston

Statements of Functional Expenses for the years ended August 31, 2019 and 2018

	PROGRAM SERVICES	MARKETING AND SALES	MANAGEMENT AND GENERAL	FUNDRAISING	2019 TOTAL
Compensation and related costs	\$ 1,243,755	\$ 148,554	\$ 56,885	\$ 53,137	\$ 1,502,331
Rent	277,571	14,400	13,263	10,800	316,034
Depreciation	160,706				160,706
Production supplies	119,167				119,167
Royalties	117,004				117,004
Postage and printing	42,860	42,860	2,230	3,033	90,983
Interest	41,750		18,590		60,340
Advertising		55,818	634	1,973	58,425
Professional services		17,715	26,705	4,500	48,920
Bank service fees			37,341		37,341
Insurance	13,793	1,122	20,495	401	35,811
Supplies	12,679	2,579	9,966	9,711	34,935
Utilities	16,488	1,969	754	704	19,915
Repairs	7,331				7,331
Other	3,261		4,211	2,426	9,898
Total expenses	<u>\$ 2,056,365</u>	<u>\$ 285,017</u>	<u>\$ 191,074</u>	<u>\$ 86,685</u>	2,619,141
Cost of direct donor benefits					<u>14,597</u>
Total					<u>\$ 2,633,738</u>

	PROGRAM SERVICES	MARKETING AND SALES	MANAGEMENT AND GENERAL	FUNDRAISING	2018 TOTAL
Compensation and related costs	\$ 1,402,870	\$ 164,620	\$ 57,254	\$ 55,065	\$ 1,679,809
Rent	326,426	3,800	11,693	6,080	347,999
Depreciation	163,898				163,898
Production supplies	141,690				141,690
Royalties	117,167				117,167
Postage and printing	51,456	51,456	1,125	2,626	106,663
Interest	41,750		11,651		53,401
Advertising		71,009		2,827	73,836
Professional services		8,585	21,566		30,151
Bank service fees			43,397		43,397
Insurance	12,571	1,020	19,208	341	33,140
Supplies	10,576	2,150	3,435	10,324	26,485
Utilities	17,325	2,033	707	680	20,745
Repairs	9,393				9,393
Other	2,655		2,415	1,640	6,710
Total expenses	<u>\$ 2,297,777</u>	<u>\$ 304,673</u>	<u>\$ 172,451</u>	<u>\$ 79,583</u>	2,854,484
Cost of direct donor benefits					<u>17,071</u>
Total					<u>\$ 2,871,555</u>

See accompanying notes to financial statements.

Main Street Theater Houston

Statements of Cash Flows for the years ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 186,639	\$ (350,582)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	160,706	163,898
Donated property	(131,250)	
Net realized and unrealized gain on investments		(1,132)
Donated securities		(41,173)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(22,485)	35,752
Contributions receivable	(33,172)	86,921
Accounts payable and accrued expenses	(13,195)	4,662
Deferred revenue	25,973	17,480
Due to Costume Connection Houston	<u>160,700</u>	<u> </u>
Net cash provided (used) by operating activities	<u>333,916</u>	<u>(84,174)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(8,535)	(4,684)
Proceeds from sale of investments		76,684
Change in money market mutual funds held as investments	<u> </u>	<u>5,289</u>
Net cash provided (used) by investing activities	<u>(8,535)</u>	<u>77,289</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	40,000	200,000
Repayments of notes payable	<u>(90,000)</u>	<u>(150,000)</u>
Net cash provided (used) by financing activities	<u>(50,000)</u>	<u>50,000</u>
NET CHANGE IN CASH	275,381	43,115
Cash, beginning of year	<u>51,737</u>	<u>8,622</u>
Cash, end of year	<u>\$ 327,118</u>	<u>\$ 51,737</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$60,340	\$53,401

See accompanying notes to financial statements.

Main Street Theater Houston

Notes to Financial Statements for the years ended August 31, 2019 and 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – Main Street Theater Houston (the Theater) is a nonprofit theatrical organization located in Houston, Texas. The Theater was organized in 1975 to provide a wide variety of dramatic literature and theatrical innovation. In addition, the Theater provides an opportunity for artists living in the Houston area to showcase and develop their talents.

Federal income tax status – The Theater is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows. At August 31, 2019, all contributions receivable are due within one year. At August 31, 2019, 58% of the Theater's total contributions receivable balance was from one donor. At August 31, 2018, 78% of the Theater's total contributions receivable balance was from one donor.

Property held for sale is reported at the lower of cost or fair market value less estimated costs to sell.

Property is reported at cost if purchased or at fair value at the date of gift if donated. The Theater capitalizes additions and improvements with a cost of more than \$1,000. Depreciation is provided on a straight-line basis over estimated useful lives of 5 to 39 years for building and improvements, and 3 to 15 years for furniture and equipment.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Ticket sales are recognized as revenue when the performance occurs. Amounts received for future season performances are reported as deferred revenue.

Tuition is recognized in the period in which the services are provided. Amounts received in advance are deferred until earned.

Advertising costs are expensed as incurred.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Compensation and related costs are allocated on the basis of estimated time and effort expended. Facility costs are allocated based on usage of related facilities.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassification – Interest expense of \$41,750 recognized in the year ended August 31, 2018 was reclassified from management and general to program services based on use of the financed property and for consistency with the reporting methodology used in the year ended August 31, 2019.

Recent financial accounting pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. This change will require recognition of a right of use asset and lease liability for qualifying leases upon adoption.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

The Theater adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended August 31, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended August 31, 2018, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of August 31, 2019 comprise the following:

Financial assets at August 31, 2019:

Cash	\$ 327,118
Contributions receivable	128,750
Accounts receivable	<u>38,774</u>
Total financial assets	494,642
Less financial assets not available for general expenditure:	
Cash restricted for capital expenditures	(30,000)
Cash due to Costume Connection Houston	<u>(160,700)</u>
Total financial assets available for general expenditure	<u>\$ 303,942</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Theater considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures. The Theater is substantially supported by contributions, ticket sales and tuition revenue, and regularly monitors liquidity required to meet its operating needs.

NOTE 4 – PROPERTY

Property is comprised of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 216,000	\$ 216,000
Building and improvements	3,329,965	3,324,930
Furniture and equipment	<u>146,789</u>	<u>146,789</u>
Total property, at cost	3,692,754	3,687,719
Accumulated depreciation	<u>(833,416)</u>	<u>(676,210)</u>
Property, net	<u>\$ 2,859,338</u>	<u>\$ 3,011,509</u>

NOTE 5 – DUE TO COSTUME CONNECTION HOUSTON

In 2019, the Theater received a grant of \$200,000 from a foundation to support the collaboration to share costume resources and expand the capacity of the performing arts sector. In connection with this grant, the Theater entered into a fiscal sponsorship agreement with Costume Connection Houston (the Connection) to operate the costume connect program. The Connection is a shared warehouse and wardrobe maintenance facility supporting the performing arts ecosystem of the Houston region. It provides climate-controlled storage for the costume inventory of all participating theaters and makes this stock available to non-profit theaters, dance schools, churches and community performing arts groups at reasonable rates. The Connection is in the process of establishing a §501(c)(3) status of the Internal Revenue Code. The Theater will transfer \$160,700 of the grant funds to the Connection and retain \$30,000 for sponsor administrative fees.

NOTE 6 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2019</u>	<u>2018</u>
Mortgage note payable to an individual with interest at 5%. Monthly interest-only payments with balance due November 30, 2019. Collateralized by the property purchased.	\$ 600,000	\$ 600,000
Mortgage note payable to an individual with interest at 5%. Monthly interest-only payments with balance due August 12, 2020. Collateralized by the property purchased.	235,000	235,000
Unsecured bank line of credit with a limit of \$250,000; interest at prime plus 3% (8.25% at August 31, 2019). Monthly interest-only payments with balance due August 12, 2020.	<u>200,000</u>	<u>250,000</u>
Total notes payable	<u>\$ 1,035,000</u>	<u>\$ 1,085,000</u>

Effective September 25, 2019, the Theater refinanced the notes payable by entering into a promissory note with a corporation in an amount of \$1,035,000 with interest rate of 2.5% and maturity date of October 31, 2026. Principal and interest are due in monthly installments of \$4,090 with remaining principal and accrued interest due at maturity. The note is secured by property.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Personnel	\$ 40,000	
The Charles and Betti Saunders Green Room	30,000	\$ 30,000
Costume Connection Houston	<u>30,000</u>	
Total subject to expenditure for specified purpose	100,000	30,000
Subject to passage of time:		
Contributions restricted for future operations	<u>113,750</u>	
Total net assets with donor restrictions	<u>\$ 213,750</u>	<u>\$ 30,000</u>

NOTE 8 – COMMITMENTS

The Theater leases certain office and theater space under noncancellable operating leases. Future minimum lease payments are \$188,400 in 2020 and \$2,500 in 2021. Lease expense of approximately \$316,000 and \$348,000 was recognized in 2019 and 2018, respectively.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 2, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the refinancing of debt disclosed in Note 6 were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
