

Main Street Theater

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2014 and 2013

Main Street Theater

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of August 31, 2014 and 2013	2
Statement of Activities for the year ended August 31, 2014	3
Statement of Activities for the year ended August 31, 2013	4
Statements of Functional Expenses for the years ended August 31, 2014 and 2013	5
Statements of Cash Flows for the years ended August 31, 2014 and 2013	6
Notes to Financial Statements for the years ended August 31, 2014 and 2013	7

Independent Auditors' Report

To the Board of Directors of
Main Street Theater:

We have audited the accompanying financial statements of Main Street Theater, which comprise the statement of financial position as of August 31, 2014 and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

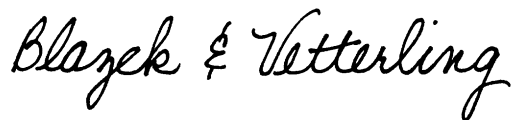
Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 as of August 31, 2014 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.

Prior Year Independent Auditors' Report – The financial statements of Main Street Theater as of and for the year ended August 31, 2013 were audited by other auditors whose report dated January 14, 2014 expressed an unmodified opinion on those statements.



November 19, 2014

Main Street Theater

Statements of Financial Position as of August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 86,441	\$ 23,996
Prepaid expenses and other assets	69,728	72,540
Pledges receivable (Note 2)	389,132	217,692
Investments (Note 3)	57,724	42,351
Cash restricted for capital projects	1,149,302	417,677
Property, net (Note 4)	<u>1,355,982</u>	<u>1,381,823</u>
TOTAL ASSETS	<u>\$ 3,108,309</u>	<u>\$ 2,156,079</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 45,290	\$ 20,584
Construction payable	25,488	
Deferred revenue	81,344	105,666
Notes payable (Note 5)	<u>835,000</u>	<u>835,000</u>
Total liabilities	<u>987,122</u>	<u>961,250</u>
Net assets:		
Unrestricted	496,250	517,198
Temporarily restricted (Note 6)	1,594,937	647,631
Permanently restricted (Note 7)	<u>30,000</u>	<u>30,000</u>
Total net assets	<u>2,121,187</u>	<u>1,194,829</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,108,309</u>	<u>\$ 2,156,079</u>

See accompanying notes to financial statements.

Main Street Theater

Statement of Activities for the year ended August 31, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions <i>(Note 9)</i>	\$ 266,931	\$ 1,145,116		\$ 1,412,047
Government grants	69,901			69,901
Ticket sales	1,072,585			1,072,585
Tuition	453,226			453,226
Investment return <i>(Note 3)</i>	1,074	8,486		9,560
Other income	79,090			79,090
Loss on disposal of property	<u>(30,551)</u>	<u> </u>		<u>(30,551)</u>
Total revenue	1,912,256	1,153,602		3,065,858
Net assets released from restrictions:				
Satisfaction of time restrictions	95,000	(95,000)		
Satisfaction of capital restrictions	63,296	(63,296)		
Satisfaction of program restrictions	<u>48,000</u>	<u>(48,000)</u>		<u> </u>
Total	<u>2,118,552</u>	<u>947,306</u>		<u>3,065,858</u>
EXPENSES:				
Program services	1,773,170			1,773,170
Management and general	293,879			293,879
Fundraising	<u>72,451</u>			<u>72,451</u>
Total expenses	<u>2,139,500</u>			<u>2,139,500</u>
CHANGES IN NET ASSETS	(20,948)	947,306		926,358
Net assets, beginning of year	<u>517,198</u>	<u>647,631</u>	<u>\$ 30,000</u>	<u>1,194,829</u>
Net assets, end of year	<u>\$ 496,250</u>	<u>\$ 1,594,937</u>	<u>\$ 30,000</u>	<u>\$ 2,121,187</u>

See accompanying notes to financial statements.

Main Street Theater

Statement of Activities for the year ended August 31, 2013

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions (<i>Note 9</i>)	\$ 379,236	\$ 600,192		\$ 979,428
Government grants	59,332			59,332
Ticket sales	852,788			852,788
Tuition	421,382			421,382
Investment return (<i>Note 3</i>)		5,375		5,375
Other income	<u>79,569</u>	<u> </u>		<u>79,569</u>
Total revenue	1,792,307	605,567		2,397,874
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>584,182</u>	<u>(584,182)</u>		<u> </u>
Total	<u>2,376,489</u>	<u>21,385</u>		<u>2,397,874</u>
EXPENSES:				
Program services	1,579,370			1,579,370
Management and general	207,628			207,628
Fundraising	<u>47,585</u>			<u>47,585</u>
Total expenses	<u>1,834,583</u>			<u>1,834,583</u>
CHANGES IN NET ASSETS				
CHANGES IN NET ASSETS	541,906	21,385		563,291
Net assets (deficit), beginning of year	<u>(24,708)</u>	<u>626,246</u>	<u>\$ 30,000</u>	<u>631,538</u>
Net assets, end of year	<u>\$ 517,198</u>	<u>\$ 647,631</u>	<u>\$ 30,000</u>	<u>\$ 1,194,829</u>

See accompanying notes to financial statements.

Main Street Theater

Statements of Functional Expenses for the years ended August 31, 2014 and 2013

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2014 TOTAL
Compensation and related expense	\$ 1,116,651	\$ 109,373	\$ 53,965	\$ 1,279,989
Rent	194,238	17,395	442	212,075
Royalties	110,311			110,311
Depreciation	96,781	2,170	1,070	100,021
Production supplies	83,329			83,329
Postage and printing	70,406	1,524	7,374	79,304
Advertising	5,108	42,635	3,179	50,922
Interest expense		41,750		41,750
Utilities	31,131	2,756	500	34,387
Insurance	16,558	15,375	587	32,520
Bank service fees		27,167		27,167
Supplies	12,052	4,978	4,334	21,364
Professional fees		20,526		20,526
Repairs	11,412			11,412
Other	25,193	8,230	1,000	34,423
Total expenses	<u>\$ 1,773,170</u>	<u>\$ 293,879</u>	<u>\$ 72,451</u>	<u>\$ 2,139,500</u>

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2013 TOTAL
Compensation and related expense	\$ 987,904	\$ 93,686	\$ 29,962	\$ 1,111,552
Rent	218,543	16,745		235,288
Royalties	70,707			70,707
Depreciation	48,907			48,907
Production supplies	74,912			74,912
Postage and printing	83,020	2,227	9,572	94,819
Advertising	36,435		667	37,102
Interest expense		20,000		20,000
Utilities	29,445	6,106		35,551
Insurance	7,017	9,387		16,404
Bank service fees		28,859		28,859
Supplies	6,535	3,820	7,384	17,739
Professional fees		16,671		16,671
Repairs	6,638			6,638
Other	9,307	10,127		19,434
Total expenses	<u>\$ 1,579,370</u>	<u>\$ 207,628</u>	<u>\$ 47,585</u>	<u>\$ 1,834,583</u>

See accompanying notes to financial statements.

Main Street Theater

Statements of Cash Flows for the years ended August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 926,358	\$ 563,291
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	100,021	48,907
Net realized and unrealized gain on investments	(6,239)	(5,375)
Contributions restricted for capital projects	(1,097,116)	(505,192)
Loss on disposal of property	30,551	
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	2,812	(10,995)
Pledges receivable	87,908	(83,818)
Accounts payable and accrued expenses	24,706	(14,506)
Deferred revenue	<u>(24,322)</u>	<u>1,114</u>
Net cash provided (used) by operating activities	<u>44,679</u>	<u>(6,574)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in cash restricted for capital projects	(731,625)	(382,089)
Purchases of property	(79,243)	(1,336,781)
Purchase of investments	(107,343)	
Proceeds from sale of investments	105,457	
Change in money market mutual funds	<u>(7,248)</u>	<u> </u>
Net cash used by investing activities	<u>(820,002)</u>	<u>(1,718,870)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital projects	837,768	882,500
Proceeds from notes payable		835,000
Payments on capital lease obligations		<u>(1,792)</u>
Net cash provided by financing activities	<u>837,768</u>	<u>1,715,708</u>
NET CHANGE IN CASH	62,445	(9,736)
Cash, beginning of year	<u>23,996</u>	<u>33,732</u>
Cash, end of year	<u>\$ 86,441</u>	<u>\$ 23,996</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$41,750	\$21,652

See accompanying notes to financial statements.

Main Street Theater

Notes to Financial Statements for the years ended August 31, 2014 and 2013

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – Main Street Theater (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). The Theater files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. The Theater believes it is no longer subject to examinations of returns for tax years ended before August 31, 2011.

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

Pledges 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.

Investments are reported at fair value. Investment return is reported in the statement of activities as an increase or decrease in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets.

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 39 years for buildings, 3 to 10 years for leasehold improvements, and 3 to 15 years for furniture and equipment.

Net asset classification – Contributions, investment return and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity.

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. Advertising expenses totaled \$50,922 in 2014 and \$37,102 in 2013.

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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with current presentation.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2014</u>	<u>2013</u>
Pledges receivable for capital projects	\$ 382,040	\$ 122,692
Operating pledges receivable	<u>7,092</u>	<u>95,000</u>
Total pledges receivable	<u>\$ 389,132</u>	<u>\$ 217,692</u>

Pledges receivable at August 31, 2014 are expected to be collected as follows:

Receivable in less than one year	\$ 266,641
Receivable in one to five years	<u>122,491</u>
Total pledges receivable	<u>\$ 389,132</u>

Concentration – At August 31, 2014, approximately 76% of pledges were due from two contributors and in 2014 approximately 51% of contributions were from three contributors.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at August 31, 2014 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity mutual funds	\$ 50,645	_____	_____	\$ 50,645
Total assets measured at fair value	<u>\$ 50,645</u>	<u>\$ 0</u>	<u>\$ 0</u>	50,645
Cash held as investments				<u>7,079</u>
Total investments				<u>\$ 57,724</u>

Assets measured at fair value at August 31, 2013 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity mutual funds	\$ 35,103	_____	_____	\$ 35,103
Money market mutual fund	<u>7,248</u>	_____	_____	<u>7,248</u>
Total assets measured at fair value	<u>\$ 42,351</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 42,351</u>

Mutual funds are valued at reported net asset value. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Theater believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return includes earnings on cash and consists of the following:

	<u>2014</u>	<u>2013</u>
Net realized and unrealized gain	\$ 6,239	\$ 5,375
Interest and dividends	<u>3,321</u>	_____
Total investment return	<u>\$ 9,560</u>	<u>\$ 5,375</u>

NOTE 4 – PROPERTY

Property is comprised of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 216,000	\$ 216,000
Buildings	1,130,159	1,130,159
Furniture and equipment	75,755	63,184
Leasehold improvements		141,499
Construction in progress	<u>99,024</u>	_____
Total property, at cost	1,520,938	1,550,842
Accumulated depreciation	<u>(164,956)</u>	<u>(169,019)</u>
Property, net	<u>\$ 1,355,982</u>	<u>\$ 1,381,823</u>

NOTE 5 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2014</u>	<u>2013</u>
Mortgage note payable to an individual with interest rate at 5%. Monthly interest-only payments with final balance due at maturity date of December 1, 2017. Collateralized by property.	\$ 600,000	\$ 600,000
Mortgage note payable to an individual with interest rate at 5%. Monthly interest-only payments with final balance due at maturity date of August 12, 2018. Collateralized by property.	<u>235,000</u>	<u>235,000</u>
Total notes payable	<u>\$ 835,000</u>	<u>\$ 835,000</u>

Lines of credit – The Theater has unsecured bank lines of credit totaling \$100,000. There was no outstanding balance at August 31, 2014.

Interest expense was \$41,750 in 2014 and \$21,652 in 2013.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Capital projects	\$ 1,574,100	\$ 540,280
Accumulated endowment earnings	20,837	12,351
Future operations	<u>95,000</u>	<u>95,000</u>
Total temporarily restricted net assets	<u>\$ 1,594,937</u>	<u>\$ 647,631</u>

NOTE 7 – ENDOWMENT FUNDS

The Theater has donor-restricted endowment funds which are maintained in accordance with explicit donor stipulations.

Changes in endowment net assets are as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, August 31, 2012	\$ 0	\$ 6,976	\$ 30,000	\$ 36,976
Investment return:				
Net realized and unrealized gain		<u>5,375</u>		<u>5,375</u>
Total investment return		<u>5,375</u>		<u>5,375</u>
Endowment net assets, August 31, 2013	<u>0</u>	<u>12,351</u>	<u>30,000</u>	<u>42,351</u>
Investment return:				
Interest and dividends		2,247		2,247
Net realized and unrealized gain		<u>6,239</u>		<u>6,239</u>
Total investment return		<u>8,486</u>		<u>8,486</u>
Endowment net assets, August 31, 2014	<u>\$ 0</u>	<u>\$ 20,837</u>	<u>\$ 30,000</u>	<u>\$ 50,837</u>

Endowment Spending Policy

The Theater has a policy of appropriating funds for distribution only when the donor-restricted endowment exceeds the original endowment by 10%. In establishing this policy, the Theater considered the long-term expected return on its endowment. This is consistent with the Theater's objectives 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.

Return Objectives and Risk Parameters

The Theater has adopted investment guidelines and spending policies for endowment assets that have the primary objective of achieving a long-term rate of return that will provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the assets. Under these guidelines, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Theater expects its endowment funds to provide an average rate of return of approximately 6% to 8% annually. Actual returns in any given year may vary from this expectation.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Theater relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Theater targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Board of Directors of the Theater has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Theater classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Theater in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Theater considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment funds
- The purposes of the Theater and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Theater
- The investment policies of the Theater

NOTE 8 – LEASE COMMITMENTS

The Theater leases certain office equipment and storage space under noncancellable operating leases. Future minimum lease payments of approximately \$120,000 are due in 2015. Lease expense totaled approximately \$210,000 in 2014 and \$230,000 in 2013.

NOTE 9 – CONDITIONAL CONTRIBUTION

In 2010, the Theater received a \$250,000 conditional grant from a foundation for capital projects contingent upon the Theater raising the balance of funds needed to complete the projects. The Theater will recognize the grant as contribution revenue when the conditions are substantially met.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 19, 2014, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
