

Main Street Theater Houston

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2021 and 2020

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, 2021 and 2020 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, 2021 and 2020 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.

Blazek & Vetterling

November 15, 2021

Main Street Theater Houston

Statements of Financial Position as of August 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents (<i>Note 4</i>)	\$ 918,334	\$ 423,045
Prepaid expenses and other assets	73,261	74,660
Contributions receivable	88,250	55,000
Property held for sale	131,250	131,250
Property, net (<i>Note 5</i>)	<u>2,591,522</u>	<u>2,705,032</u>
 TOTAL ASSETS	 <u>\$ 3,802,617</u>	 <u>\$ 3,388,987</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 41,664	\$ 24,504
Deferred revenue from ticket sales and tuition	286,011	222,737
Funds held for Costume Connection Houston (<i>Note 6</i>)		92,686
Refundable advance – Paycheck Protection Program (<i>Note 3</i>)	240,000	160,000
Refundable advance – Shuttered Venue Operators Grant (<i>Note 3</i>)	467,281	
Refundable advance – special events	82,800	
Note payable (<i>Note 7</i>)	<u>991,525</u>	<u>1,015,485</u>
Total liabilities	<u>2,109,281</u>	<u>1,515,412</u>
Net assets:		
Without donor restrictions	1,588,336	1,830,575
With donor restrictions (<i>Note 8</i>)	<u>105,000</u>	<u>43,000</u>
Total net assets	<u>1,693,336</u>	<u>1,873,575</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 3,802,617</u>	 <u>\$ 3,388,987</u>

See accompanying notes to financial statements.

Main Street Theater Houston

Statement of Activities for the year ended August 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants		\$ 180,000	\$ 180,000
Other	\$ 560,639	75,000	635,639
Ticket sales	78,437		78,437
Tuition and fees	289,170		289,170
Other income	19,744		19,744
Total revenue	947,990	255,000	1,202,990
Net assets released from restrictions:			
Satisfaction of program restrictions	193,000	(193,000)	
Total	1,140,990	62,000	1,202,990
EXPENSES:			
Program services	946,916		946,916
Marketing and sales	107,647		107,647
Management and general	257,331		257,331
Fundraising	71,335		71,335
Total expenses	1,383,229		1,383,229
CHANGES IN NET ASSETS	(242,239)	62,000	(180,239)
Net assets, beginning of year	1,830,575	43,000	1,873,575
Net assets, end of year	\$ 1,588,336	\$ 105,000	\$ 1,693,336

See accompanying notes to financial statements.

Main Street Theater Houston

Statement of Activities for the year ended August 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 702,482	\$ 20,000	\$ 722,482
Ticket sales	642,921		642,921
Tuition and fees	229,623		229,623
Other income	<u>45,740</u>		<u>45,740</u>
Total revenue	1,620,766	20,000	1,640,766
Net assets released from restrictions:			
Satisfaction of time restrictions	113,750	(113,750)	
Satisfaction of program restrictions	<u>77,000</u>	<u>(77,000)</u>	
Total	<u>1,811,516</u>	<u>(170,750)</u>	<u>1,640,766</u>
EXPENSES:			
Program services	1,474,790		1,474,790
Marketing and sales	175,200		175,200
Management and general	205,000		205,000
Fundraising	<u>55,273</u>		<u>55,273</u>
Total expenses	<u>1,910,263</u>		<u>1,910,263</u>
CHANGES IN NET ASSETS	(98,747)	(170,750)	(269,497)
Net assets, beginning of year	<u>1,929,322</u>	<u>213,750</u>	<u>2,143,072</u>
Net assets, end of year	<u>\$ 1,830,575</u>	<u>\$ 43,000</u>	<u>\$ 1,873,575</u>

See accompanying notes to financial statements.

Main Street Theater Houston

Statements of Functional Expenses for the years ended August 31, 2021 and 2020

	PROGRAM SERVICES	MARKETING AND SALES	MANAGEMENT AND GENERAL	FUNDRAISING	2021 TOTAL
Compensation and related costs	\$ 521,076	\$ 72,886	\$ 150,769	\$ 41,562	\$ 786,293
Rent	169,076	5,900	4,730	4,425	184,131
Depreciation	121,314				121,314
Postage and printing	11,134	11,134	1,595	17,152	41,015
Professional services		6,295	23,573		29,868
Utilities	19,156	2,679	5,543	1,528	28,906
Repairs	26,990				26,990
Insurance	6,406	374	19,566	213	26,559
Interest	25,114				25,114
Bank service fees			23,455		23,455
Production supplies	21,689				21,689
Supplies	5,764	2,235	9,574	3,026	20,599
Royalties	13,957				13,957
Advertising		6,144	114	1,794	8,052
Other	5,240		18,412	1,635	25,287
Total expenses	<u>\$ 946,916</u>	<u>\$ 107,647</u>	<u>\$ 257,331</u>	<u>\$ 71,335</u>	<u>\$ 1,383,229</u>

	PROGRAM SERVICES	MARKETING AND SALES	MANAGEMENT AND GENERAL	FUNDRAISING	2020 TOTAL
Compensation and related costs	\$ 905,372	\$ 116,073	\$ 104,466	\$ 34,822	\$ 1,160,733
Rent	187,575	12,200	10,438	9,150	219,363
Depreciation	157,281				157,281
Postage and printing	23,438	23,438	1,522	6,984	55,382
Professional services		11,097	30,389		41,486
Utilities	15,613	2,002	1,801	600	20,016
Repairs	9,072				9,072
Insurance	4,494	157	19,692	47	24,390
Interest	25,331		2,827		28,158
Bank service fees			22,600		22,600
Production supplies	73,813				73,813
Supplies	10,127	1,964	3,518	1,812	17,421
Royalties	58,234				58,234
Advertising		8,269	45	710	9,024
Other	4,440		7,702	1,148	13,290
Total expenses	<u>\$ 1,474,790</u>	<u>\$ 175,200</u>	<u>\$ 205,000</u>	<u>\$ 55,273</u>	<u>\$ 1,910,263</u>

See accompanying notes to financial statements.

Main Street Theater Houston

Statements of Cash Flows for the years ended August 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (180,239)	\$ (269,497)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	121,314	157,281
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	1,399	57,198
Contributions receivable	(33,250)	73,750
Accounts payable and accrued expenses	17,160	(32,724)
Deferred revenue	63,274	40,423
Funds held for Costume Connection Houston	(92,686)	(68,014)
Refundable advance – Paycheck Protection Program	80,000	160,000
Refundable advance – Shuttered Venue Operators Grant	467,281	
Refundable advance – special events	<u>82,800</u>	
Net cash provided by operating activities	<u>527,053</u>	<u>118,417</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(7,804)</u>	<u>(2,975)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable	<u>(23,960)</u>	<u>(19,515)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	495,289	95,927
Cash and cash equivalents, beginning of year	<u>423,045</u>	<u>327,118</u>
Cash and cash equivalents, end of year	<u>\$ 918,334</u>	<u>\$ 423,045</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$25,114	\$28,158
Note payable refinanced		\$1,015,485

See accompanying notes to financial statements.

Main Street Theater Houston

Notes to Financial Statements for the years ended August 31, 2021 and 2020

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 and cash equivalents include bank deposits and highly liquid financial instruments with original maturities of three months or less.

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, 2021, all contributions receivable are due within one year.

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 *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the Theater is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been substantially met. Funding received before conditions are met is reported as a refundable advance.

Special event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the

event occurs. Amounts received in advance are reported as a refundable advance until earned. Direct donor benefits represent the cost of goods and services provided to attendees of special events.

Ticket sales are derived from season subscription ticket holders and individual ticket sales for performances for which the Theater has a performance obligation to the ticket holder. Subscription fees are due prior to the Theater season and individual ticket sales are due at the point of sale. Subscriptions are recognized over the Theater season using the output method or as the performance occurs. Individual ticket sales are recognized at the point in time of the performance. Subscriptions and ticket sales collected in advance for the future season performances are reported as deferred revenue. There were no assets related to ticket sales as of August 31, 2021, 2020, or 2019. Deferred revenue from ticket sales were \$261,778, \$207,993, and \$169,795 at August 31, 2021, 2020 and 2019, respectively.

Tuition and fees are derived from providing skills and performance classes, camps, and after-school enrichment classes and are recognized ratably over time as those services are provided. Scholarships reduce the amount of consideration the Theater expects to be entitled to receive, and the tuition and fees are presented net of scholarships. Tuition and fees are due upon registration of classes and camps unless payment plans have been arranged on a case by case basis. Tuition and fees collected in advance are deferred until performance obligations are met in the following fiscal year. As a practical expedient, the Theater considers registration fees to be immaterial and accordingly, they are not disaggregated from tuition and fees. Tuition and fees receivable were \$2,000 and \$12,462 at August 31, 2020 and 2019. There were no assets related to tuition and fees as of August 31, 2021. Deferred revenue from tuition and fees were \$24,233, \$14,744 and \$12,519 at August 31, 2021, 2020, and 2019, respectively.

Advertising costs are expensed as incurred.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Marketing and sales activities include solicitation of ticket sales and tuition. 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.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE

Effective July 1, 2020, the Theater adopted the Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. This ASU has been applied on a retrospective basis to the financial statements for the year ended August 31, 2020. Because the timing and amount of revenue recognized previously is not different from revenue recognized under the new guidance, adoption of this standard had no impact on 2020 net assets or changes in net assets.

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 comprise the following:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 918,334	\$ 423,045
Contributions receivable	88,250	55,000
Accounts receivable	<u> </u>	<u>18,177</u>
Total financial assets	1,006,584	496,222
Less financial assets not available for general expenditure:		
Cash restricted for capital expenditures	(30,000)	(30,000)
Funds held for Costume Connection Houston	<u> </u>	<u>(92,686)</u>
Total financial assets available for general expenditure	<u>\$ 976,584</u>	<u>\$ 373,536</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 and fees revenue, and regularly monitors liquidity required to meet its operating needs.

On March 13, 2020, a national emergency was declared due to the COVID-19 pandemic. This significantly impacted the Theater's ability to perform the planned 2019-20 and 2020-21 seasons. The Theater experienced mandatory closures and restrictions related to gathering size throughout the fiscal year. The Theater responded by providing performances through virtual platforms and restructuring the class schedule, and reformatting performances to support social distancing with performers and audiences, and offering summer camps when the Theater was partially opened in June 2021. To mitigate the impact of reduced live audience sizes and the lower price point of streamed performances, the Theater implemented cost-cutting measures across all functional areas.

In April 2020, the Theater received an unsecured bank loan of \$160,000 funded through the Small Business Administration's Paycheck Protection Program (PPP). The loan was forgiven and recognized as contribution revenue in fiscal year 2021 as the Theater met the eligibility requirements and used the loan to fund qualified payroll and other eligible costs.

In March 2021, the Theater received an additional unsecured PPP bank loan of \$240,000. The loan bears interest at 1.0% and may be repaid over 5 years. PPP loan principal and interest may be forgiven, in whole or in part, if funds are used for the intended purposes. The Theater received forgiveness in September 2021, and as such will recognize the revenue in fiscal year 2022.

In July 2021, the Theater received notification of award of approximately \$467,000 from the Shuttered Venue Operators Grant program. Entitlement to this grant is conditional upon incurrence of qualifying grant expenditures and/or performance requirements being met.

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2021</u>	<u>2020</u>
Bank deposits	\$ 806,131	\$ 361,722
Money market mutual funds	<u>112,203</u>	<u>61,323</u>
Total cash and cash equivalents	<u>\$ 918,334</u>	<u>\$ 423,045</u>

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

NOTE 5 – PROPERTY

Property is comprised of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 216,000	\$ 216,000
Building and improvements	3,329,965	3,329,965
Furniture and equipment	<u>157,568</u>	<u>149,764</u>
Total property, at cost	3,703,533	3,695,729
Accumulated depreciation	<u>(1,112,011)</u>	<u>(990,697)</u>
Property, net	<u>\$ 2,591,522</u>	<u>\$ 2,705,032</u>

NOTE 6 – FUNDS HELD FOR 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. During fiscal year 2021, the Connection obtained the §501(c)(3) status of the Internal Revenue Code and operated as a separate entity. The Theater transferred the remaining amount of the grant funds to the Connection during 2021.

NOTE 7 – NOTE PAYABLE

The Theater has a mortgage note payable with a corporation with interest at 2.5%. The principal and interest are due in monthly installments of \$4,090, with remaining principal and accrued interest due at the maturity date of October 31, 2026. The loan is collateralized by property.

Future principal payments are due as follows:

2022	\$ 24,566
2023	25,187
2024	25,825
2025	26,477
2026	27,147
Thereafter through 2027	<u>862,323</u>
Total	<u>\$ 991,525</u>

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
The Charles and Betti Saunders Green Room	\$ 30,000	\$ 30,000
Production sponsorship		<u>13,000</u>
Total subject to expenditure for specified purpose	30,000	43,000
Subject to passage of time:		
Contributions restricted for future operations	<u>75,000</u>	
Total net assets with donor restrictions	<u>\$ 105,000</u>	<u>\$ 43,000</u>

NOTE 9 – LEASE COMMITMENTS

The Theater leases certain office and theater space under noncancellable operating leases. Future minimum lease payments are due as follows:

2022	\$ 188,000
2023	<u>44,500</u>
Total	<u>\$ 232,500</u>

Lease expense of approximately \$184,000 and \$219,000 was recognized in 2021 and 2020, respectively.

NOTE 10 – SUBSEQUENT EVENTS

In September 2021, the Theater sold the land currently in property held for sale at the purchase price of \$150,000.

Management has evaluated subsequent events through November 15, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.