

Main Street Theater Houston

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2022 and 2021

Main Street Theater Houston

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Independent Auditors' Report

To the Board of Directors of
Main Street Theater Houston:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Main Street Theater Houston, which comprise the statements of financial position as of August 31, 2022 and 2021 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Main Street Theater Houston as of August 31, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' 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 auditors' 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 generally accepted auditing

standards 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 generally accepted auditing standards, 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 Main Street Theater Houston'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 Main Street Theater Houston'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.

Blazek & Vetterling

November 10, 2022

Main Street Theater Houston

Statements of Financial Position as of August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents (<i>Note 3</i>)	\$ 495,168	\$ 918,334
Prepaid expenses and other assets	87,918	73,261
Contributions receivable	86,282	88,250
Property held for sale		131,250
Property, net (<i>Note 4</i>)	<u>2,507,103</u>	<u>2,591,522</u>
TOTAL ASSETS	<u>\$ 3,176,471</u>	<u>\$ 3,802,617</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 34,953	\$ 41,664
Deferred revenue from ticket sales and tuition	210,267	286,011
Refundable advance – Paycheck Protection Program (<i>Note 2</i>)		240,000
Refundable advance – Shuttered Venue Operators Grant (<i>Note 7</i>)	353,631	467,281
Refundable advance – special events	6,750	82,800
Note payable (<i>Note 5</i>)	<u>966,959</u>	<u>991,525</u>
Total liabilities	<u>1,572,560</u>	<u>2,109,281</u>
Net assets:		
Without donor restrictions	1,495,554	1,588,336
With donor restrictions (<i>Note 6</i>)	<u>108,357</u>	<u>105,000</u>
Total net assets	<u>1,603,911</u>	<u>1,693,336</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,176,471</u>	<u>\$ 3,802,617</u>

See accompanying notes to financial statements.

Main Street Theater Houston

Statement of Activities for the year ended August 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 589,060	\$ 116,857	\$ 705,917
Government grants <i>(Note 7)</i>		707,291	707,291
Ticket sales	947,751		947,751
Tuition and fees	350,040		350,040
Other income	<u>58,623</u>		<u>58,623</u>
Total revenue	1,945,474	824,148	2,769,622
Net assets released from restrictions:			
Satisfaction of program restrictions	745,791	(745,791)	
Satisfaction of time restrictions	<u>75,000</u>	<u>(75,000)</u>	
Total	<u>2,766,265</u>	<u>3,357</u>	<u>2,769,622</u>
EXPENSES:			
Program services	2,315,432		2,315,432
Marketing and sales	204,158		204,158
Management and general	241,898		241,898
Fundraising	<u>97,559</u>		<u>97,559</u>
Total expenses	<u>2,859,047</u>		<u>2,859,047</u>
CHANGES IN NET ASSETS	(92,782)	3,357	(89,425)
Net assets, beginning of year	<u>1,588,336</u>	<u>105,000</u>	<u>1,693,336</u>
Net assets, end of year	<u>\$ 1,495,554</u>	<u>\$ 108,357</u>	<u>\$ 1,603,911</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	\$ 560,639	\$ 75,000	\$ 635,639
Government grants		180,000	180,000
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

Statements of Functional Expenses for the years ended August 31, 2022 and 2021

	PROGRAM SERVICES	MARKETING AND SALES	MANAGEMENT AND GENERAL	FUNDRAISING	2022 TOTAL
Compensation and related costs	\$ 1,527,278	\$ 124,536	\$ 125,345	\$ 65,888	\$ 1,843,047
Rent	244,210	6,736	5,416	5,052	261,414
Production supplies	165,821				165,821
Depreciation	125,261				125,261
Royalties	93,820				93,820
Postage and printing	39,649	39,649	2,487	8,164	89,949
Supplies	30,874	1,324	12,919	10,409	55,526
Bank service fees			41,241		41,241
Professional services		11,390	25,077		36,467
Insurance	15,438		19,339		34,777
Interest	24,508				24,508
Utilities	18,447	1,504	1,514	796	22,261
Repairs	21,171				21,171
Advertising		19,019	143	1,931	21,093
Other	8,955		8,417	5,319	22,691
Total expenses	<u>\$ 2,315,432</u>	<u>\$ 204,158</u>	<u>\$ 241,898</u>	<u>\$ 97,559</u>	<u>\$ 2,859,047</u>

	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
Production supplies	21,689				21,689
Depreciation	121,314				121,314
Royalties	13,957				13,957
Postage and printing	11,134	11,134	1,595	17,152	41,015
Supplies	5,764	2,235	9,574	3,026	20,599
Bank service fees			23,455		23,455
Professional services		6,295	23,573		29,868
Insurance	6,406	374	19,566	213	26,559
Interest	25,114				25,114
Utilities	19,156	2,679	5,543	1,528	28,906
Repairs	26,990				26,990
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>

See accompanying notes to financial statements.

Main Street Theater Houston

Statements of Cash Flows for the years ended August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (89,425)	\$ (180,239)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	125,261	121,314
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(14,657)	1,399
Contributions receivable	1,968	(33,250)
Accounts payable and accrued expenses	(6,711)	17,160
Deferred revenue	(75,744)	63,274
Funds held for Costume Connection Houston		(92,686)
Refundable advance – Paycheck Protection Program	(240,000)	80,000
Refundable advance – Shuttered Venue Operators Grant	(113,650)	467,281
Refundable advance – special events	<u>(76,050)</u>	<u>82,800</u>
Net cash provided (used) by operating activities	<u>(489,008)</u>	<u>527,053</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property	132,595	
Purchases of property	<u>(42,187)</u>	<u>(7,804)</u>
Net cash provided (used) by investing activities	<u>90,408</u>	<u>(7,804)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable	<u>(24,566)</u>	<u>(23,960)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(423,166)	495,289
Cash and cash equivalents, beginning of year	<u>918,334</u>	<u>423,045</u>
Cash and cash equivalents, end of year	<u>\$ 495,168</u>	<u>\$ 918,334</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$24,508	\$25,114

See accompanying notes to financial statements.

Main Street Theater Houston

Notes to Financial Statements for the years ended August 31, 2022 and 2021

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, 2022, 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.

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, 2022, 2021, or 2020. Deferred revenue from ticket sales was \$185,306, \$261,778, and \$207,993 at August 31, 2022, 2021 and 2020, 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 \$4,425, \$0 and \$2,000 at August 31, 2022, 2021 and 2020. Deferred revenue from tuition and fees was \$24,961, \$24,233 and \$14,744 at August 31, 2022, 2021, and 2020, 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 – 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>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 495,168	\$ 918,334
Contributions receivable	<u>86,282</u>	<u>88,250</u>
Total financial assets	581,450	1,006,584
Less financial assets not available for general expenditure:		
Cash restricted for capital expenditures	<u>(26,500)</u>	<u>(30,000)</u>
Total financial assets available for general expenditure	<u>\$ 554,950</u>	<u>\$ 976,584</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.

In March 2021, the Theater received an unsecured bank loan of \$240,000 funded through the Small Business Administration's Paycheck Protection Program. The loan was forgiven and recognized as government grants revenue in fiscal year 2022 as the Theater met the eligibility requirements and used the loan to fund qualified payroll and other eligible costs.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2022</u>	<u>2021</u>
Bank deposits	\$ 382,965	\$ 806,131
Money market mutual funds	<u>112,203</u>	<u>112,203</u>
Total cash and cash equivalents	<u>\$ 495,168</u>	<u>\$ 918,334</u>

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

NOTE 4 – PROPERTY

Property is comprised of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 216,000	\$ 216,000
Building and improvements	3,329,965	3,329,965
Furniture and equipment	<u>198,411</u>	<u>157,568</u>
Total property, at cost	3,744,376	3,703,533
Accumulated depreciation	<u>(1,237,273)</u>	<u>(1,112,011)</u>
Property, net	<u>\$ 2,507,103</u>	<u>\$ 2,591,522</u>

NOTE 5 – 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:

2023	\$ 25,187
2024	25,825
2025	26,477
2026	27,147
2027	<u>862,323</u>
Total note payable	<u>\$ 966,959</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Theater for Youth	\$ 50,000	
The Charles and Betti Saunders Green Room	<u>26,500</u>	\$ <u>30,000</u>
Total subject to expenditure for specified purpose	76,500	30,000
Subject to passage of time:		
Contributions restricted for future operations	<u>31,857</u>	<u>75,000</u>
Total net assets with donor restrictions	<u>\$ 108,357</u>	<u>\$ 105,000</u>

NOTE 7 – CONDITIONAL CONTRIBUTION

In 2022, the Theater received notification of award of approximately \$821,000 from the Shuttered Venue Operators Grant (SVOG) program. The Theater recognized approximately \$467,000 of grant revenue during fiscal year 2022 as the Theater incurred qualifying grant expenditures. At August 31, 2022, approximately \$354,000 had not been recognized in the accompanying financial statements because the conditions have not been met. The Theater will recognize this grant as qualifying grant expenditures are incurred and/or performance requirements are met.

Government grants require fulfillment of certain conditions as set forth in the grant contracts and is subject to review and audit by the awarding agency. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, the funding source may, at its discretion, request reimbursement for expenses or return of funds as a result of non-compliance by the Theater with the terms of the contract. Management believes such disallowances, if any, would not be material to the Theater's financial position or changes in net assets.

NOTE 8 – LEASE COMMITMENTS

The Theater leases certain office and theater space under noncancellable operating leases. Total future minimum lease payments of \$125,600 are due in 2023.

Lease expense of approximately \$261,000 and \$184,000 was recognized in 2022 and 2021, respectively.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 10, 2022, 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.