Main Street Theater

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2015 and 2014

Main Street Theater

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Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

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 statements of financial position as of August 31, 2015 and 2014 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 as of August 31, 2015 and 2014 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 13, 2015

2900 Weslayan, Suite 200   Houston, Texas 77027-5132   (713) 439-5757   Fax (713) 439-5758

Main Street Theater

Statements of Financial Position as of August 31, 2015 and 2014

	2015	2014
ASSETS		
Cash	$ 57,828	$ 86,441
Prepaid expenses and other assets	59,185	69,728
Pledges receivable *(Note 2)*	335,805	389,132
Investments *(Note 3)*	49,213	57,724
Cash restricted for capital projects	320,642	1,149,302
Property, net *(Note 4)*	3,010,560	1,355,982
TOTAL ASSETS	$ 3,833,233	$ 3,108,309
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 35,670	$ 45,290
Construction payable	473,360	25,488
Deferred revenue	113,047	81,344
Notes payable *(Note 5)*	835,000	835,000
Total liabilities	1,457,077	987,122
Net assets:		
Unrestricted	356,657	496,250
Temporarily restricted *(Note 6)*	1,989,499	1,594,937
Permanently restricted *(Note 7)*	30,000	30,000
Total net assets	2,376,156	2,121,187
TOTAL LIABILITIES AND NET ASSETS	$ 3,833,233	$ 3,108,309

See accompanying notes to financial statements.

Main Street Theater

Statement of Activities for the year ended August 31, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Contributions *(Note 9)*	$ 420,208	$ 523,508		$ 943,716
Ticket sales	756,085			756,085
Tuition	438,778			438,778
Investment return *(Note 3)*	1,411	(3,520)		(2,109)
Other income	28,298			28,298
Total revenue	1,644,780	519,988		2,164,768
Net assets released from restrictions:				
Satisfaction of capital restrictions	74,426	(74,426)		
Satisfaction of program restrictions	51,000	(51,000)		
Total	1,770,206	394,562		2,164,768
EXPENSES:				
Program services	1,541,580			1,541,580
Management and general	282,637			282,637
Fundraising	85,582			85,582
Total expenses	1,909,799			1,909,799
CHANGES IN NET ASSETS	(139,593)	394,562		254,969
Net assets, beginning of year	496,250	1,594,937	$ 30,000	2,121,187
Net assets, end of year	$ 356,657	$ 1,989,499	$ 30,000	$ 2,376,156

See accompanying notes to financial statements.

Main Street Theater

Statement of Activities for the year ended August 31, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Contributions *(Note 9)*	$ 336,832	$ 1,145,116		$ 1,481,948
Ticket sales	1,072,585			1,072,585
Tuition	453,226			453,226
Investment return *(Note 3)*	1,074	8,486		9,560
Other income	79,090			79,090
Loss on disposal of property	(30,551)			(30,551)
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	48,000	(48,000)		
Total	2,118,552	947,306		3,065,858
EXPENSES:				
Program services	1,773,170			1,773,170
Management and general	293,879			293,879
Fundraising	72,451			72,451
Total expenses	2,139,500			2,139,500
CHANGES IN NET ASSETS	(20,948)	947,306		926,358
Net assets, beginning of year	517,198	647,631	$ 30,000	1,194,829
Net assets, end of year	$ 496,250	$ 1,594,937	$ 30,000	$ 2,121,187

See accompanying notes to financial statements.

Main Street Theater

Statements of Functional Expenses for the years ended August 31, 2015 and 2014

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2015 TOTAL
Compensation and related expense	$ 1,020,590	$ 101,754	$ 66,824	$ 1,189,168
Rent	203,698	21,692	796	226,186
Royalties	76,154			76,154
Postage and printing	64,806	3,852	2,764	71,422
Production supplies	65,317			65,317
Depreciation	56,692	2,065	1,356	60,113
Interest expense		41,750		41,750
Advertising		25,530	3,386	28,916
Insurance	12,202	15,653	530	28,385
Supplies	12,499	6,511	8,393	27,403
Utilities	22,284	812	533	23,629
Bank service fees		21,884		21,884
Professional fees		18,720		18,720
Repairs	2,331			2,331
Other	5,007	22,414	1,000	28,421
Total expenses	$ 1,541,580	$ 282,637	$ 85,582	$ 1,909,799

	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
Postage and printing	70,406	1,524	7,374	79,304
Production supplies	83,329			83,329
Depreciation	96,781	2,170	1,070	100,021
Interest expense		41,750		41,750
Advertising	5,108	42,635	3,179	50,922
Insurance	16,558	15,375	587	32,520
Supplies	12,052	4,978	4,334	21,364
Utilities	31,131	2,756	500	34,387
Bank service fees		27,167		27,167
Professional fees		20,526		20,526
Repairs	11,412			11,412
Other	25,193	8,230	1,000	34,423
Total expenses	$ 1,773,170	$ 293,879	$ 72,451	$ 2,139,500

See accompanying notes to financial statements.

Main Street Theater

Statements of Cash Flows for the years ended August 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 254,969	$ 926,358
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	60,113	100,021
Net realized and unrealized (gain) loss on investments	5,197	(6,239)
Contributions restricted for capital projects	(380,508)	(1,097,116)
Loss on disposal of property		30,551
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	10,543	2,812
Pledges receivable	(71,658)	87,908
Accounts payable and accrued expenses	(9,620)	24,706
Deferred revenue	31,703	(24,322)
Net cash provided (used) by operating activities	(99,261)	44,679
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in cash restricted for capital projects	828,660	(731,625)
Purchases of property	(1,266,819)	(79,243)
Purchases of investments	(10,422)	(107,343)
Proceeds from sale of investments	20,376	105,457
Change in money market mutual funds	(6,640)	(7,248)
Net cash used by investing activities	(434,845)	(820,002)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital projects	505,493	837,768
NET CHANGE IN CASH	(28,613)	62,445
Cash, beginning of year	86,441	23,996
Cash, end of year	$ 57,828	$ 86,441

Supplemental disclosure of cash flow information:

Interest paid	$41,750	$41,750

See accompanying notes to financial statements.

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, 2012.

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 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 $28,916 in 2015 and $50,922 in 2014.

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 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2015	2014
Pledges receivable for capital projects	$ 257,055	$ 382,040
Operating pledges receivable	78,750	7,092
Total pledges receivable	$ 335,805	$ 389,132

Pledges receivable at August 31, 2015 are expected to be collected as follows:

Receivable in less than one year	$ 300,639
Receivable in one to five years	35,166
Total pledges receivable	$ 335,805

Concentration – At August 31, 2015, approximately 74% of pledges were from three contributors. 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, 2015 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity mutual funds	$ 42,573			$ 42,573
Money market mutual funds	6,640			6,640
Total assets measured at fair value	$ 49,213	$ 0	$ 0	$ 49,213

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

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

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:

	2015	2014
Net realized and unrealized gain (loss)	$ (5,197)	$ 6,239
Interest and dividends	3,088	3,321
Total investment return	$ (2,109)	$ 9,560

NOTE 4 – PROPERTY

Property is comprised of the following:

	2015	2014
Land	$ 216,000	$ 216,000
Buildings	1,103,145	1,130,159
Furniture and equipment	89,483	75,755
Construction in progress	1,799,727	99,024
Total property, at cost	3,208,355	1,520,938
Accumulated depreciation	(197,795)	(164,956)
Property, net	$ 3,010,560	$ 1,355,982

NOTE 5 – NOTES PAYABLE

Notes payable consist of the following:

	2015	2014
Mortgage note payable to an individual with interest rate at 5%. Monthly interest-only payments with balance due 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 balance due August 12, 2018. Collateralized by property.	235,000	235,000
Total notes payable	$ 835,000	$ 835,000

Line of credit – The Theater has a $50,000 unsecured bank line of credit. There was no outstanding balance at August 31, 2015.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Capital projects	$ 1,880,182	$ 1,574,100
Future operations	77,000	
Accumulated endowment earnings	17,317	20,837
Strategic planning	15,000	
Total temporarily restricted net assets	$ 1,989,499	$ 1,594,937

NOTE 7 – ENDOWMENT FUNDS

Changes in endowment net assets are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, August 31, 2013	$ 0	$ 12,351	$ 30,000	$ 42,351
Investment return:				
Interest and dividends		2,247		2,247
Net realized and unrealized gain		6,239		6,239
Total investment return		8,486		8,486
Endowment net assets, August 31, 2014	0	20,837	30,000	50,837
Investment return:				
Interest and dividends		1,677		1,677
Net realized and unrealized loss		(5,197)		(5,197)
Total investment return		(3,520)		(3,520)
Endowment net assets, August 31, 2015	$ 0	$ 17,317	$ 30,000	$ 47,317

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 – COMMITMENTS

Lean commitments – The Theater leases certain office equipment and storage space under noncancellable operating leases. Future minimum lease payments are due as follows:

2016	$ 67,600
2017	65,800
2018	2,000
Total	$ 135,400

Lease expense of approximately $226,000 and $212,000 were recognized in 2015 and 2014, respectively.

Construction commitment – At August 31, 2015, the Theater had a construction commitment of approximately $130,000 for renovation of the Theater.

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 13, 2015, 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.