

Main Street Theater Houston

Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2024 and 2023

Main Street Theater Houston

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of August 31, 2024 and 2023	3
Statement of Activities for the year ended August 31, 2024	4
Statement of Activities for the year ended August 31, 2023	5
Statements of Functional Expenses for the years ended August 31, 2024 and 2023	6
Statements of Cash Flows for the years ended August 31, 2024 and 2023	7
Notes to Financial Statements for the years ended August 31, 2024 and 2023	8

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, 2024 and 2023, 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, 2024 and 2023, 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.

Emphasis-of-Matter

As discussed in Note 2 to the financial statements, Main Street Theater has suffered recurring losses from operations and has a deficiency in working capital. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 2. Our opinion is not modified with respect to this matter.

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

June 20, 2025

Main Street Theater Houston

Statements of Financial Position as of August 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents <i>(Note 3)</i>	\$ 157,471	\$ 270,728
Prepaid expenses and other assets	72,521	123,644
Contributions receivable	133,272	217,503
Cash restricted for capital expenditures <i>(Note 3)</i>	26,500	26,500
Operating lease right-of-use assets <i>(Note 4)</i>	271,789	365,219
Property, net <i>(Note 5)</i>	<u>2,280,540</u>	<u>2,394,938</u>
TOTAL ASSETS	<u>\$ 2,942,093</u>	<u>\$ 3,398,532</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 177,279	\$ 69,702
Deferred revenue from ticket sales and tuition	249,360	255,979
Notes payable <i>(Note 6)</i>	1,064,616	939,620
Operating lease liabilities <i>(Note 4)</i>	<u>274,309</u>	<u>365,939</u>
Total liabilities	<u>1,765,564</u>	<u>1,631,240</u>
Net assets:		
Without donor restrictions	901,162	1,350,789
With donor restrictions <i>(Note 7)</i>	<u>275,367</u>	<u>416,503</u>
Total net assets	<u>1,176,529</u>	<u>1,767,292</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,942,093</u>	<u>\$ 3,398,532</u>

See accompanying notes to financial statements.

Main Street Theater Houston

Statement of Activities for the year ended August 31, 2024

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 820,615	\$ 235,000	\$ 1,055,615
Ticket sales	1,308,155		1,308,155
Tuition and fees	450,142		450,142
Other income	<u>116,761</u>		<u>116,761</u>
Total revenue	2,695,673	235,000	2,930,673
Net assets released from restrictions:			
Satisfaction of program restrictions	148,550	(148,550)	
Satisfaction of time restrictions	<u>227,586</u>	<u>(227,586)</u>	
Total	<u>3,071,809</u>	<u>(141,136)</u>	<u>2,930,673</u>
EXPENSES:			
Program services	2,890,008		2,890,008
Marketing and sales	278,410		278,410
Management and general	295,489		295,489
Fundraising	<u>57,529</u>		<u>57,529</u>
Total expenses	<u>3,521,436</u>		<u>3,521,436</u>
CHANGES IN NET ASSETS	(449,627)	(141,136)	(590,763)
Net assets, beginning of year	<u>1,350,789</u>	<u>416,503</u>	<u>1,767,292</u>
Net assets, end of year	<u>\$ 901,162</u>	<u>\$ 275,367</u>	<u>\$ 1,176,529</u>

See accompanying notes to financial statements.

Main Street Theater Houston

Statement of Activities for the year ended August 31, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 677,962	\$ 402,003	\$ 1,079,965
Government grants		518,582	518,582
Special events	60,345		60,345
Cost of direct donor benefits	(18,975)		(18,975)
Ticket sales	1,326,896		1,326,896
Tuition and fees	416,814		416,814
Other income	109,228		109,228
Total revenue	2,572,270	920,585	3,492,855
Net assets released from restrictions:			
Satisfaction of program restrictions	580,582	(580,582)	
Satisfaction of time restrictions	31,857	(31,857)	
Total	3,184,709	308,146	3,492,855
EXPENSES:			
Program services	2,656,136		2,656,136
Marketing and sales	336,937		336,937
Management and general	251,965		251,965
Fundraising	84,436		84,436
Total expenses	3,329,474		3,329,474
CHANGES IN NET ASSETS	(144,765)	308,146	163,381
Net assets, beginning of year	1,495,554	108,357	1,603,911
Net assets, end of year	\$ 1,350,789	\$ 416,503	\$ 1,767,292

See accompanying notes to financial statements.

Main Street Theater Houston

Statements of Functional Expenses for the years ended August 31, 2024 and 2023

	PROGRAM SERVICES	MARKETING AND SALES	MANAGEMENT AND GENERAL	FUNDRAISING	2024 TOTAL
Compensation and related costs	\$ 1,811,417	\$ 129,005	\$ 120,407	\$ 21,836	\$ 2,082,665
Rent	316,103	6,240	4,802	4,680	331,825
Production supplies	280,176				280,176
Royalties	151,162				151,162
Depreciation	120,655				120,655
Postage and printing	53,236	53,236	4,492	3,566	114,530
Professional services		35,365	54,663	19,545	109,573
Bank service fees			65,431		65,431
Advertising		50,919	129	3,043	54,091
Supplies	37,158	76	10,617	1,002	48,853
Insurance	18,012	1,127	25,890	191	45,220
Utilities	30,296	2,442	2,272	413	35,423
Repairs	35,370				35,370
Interest	27,475				27,475
Other	8,948		6,786	3,253	18,987
Total expenses	<u>\$ 2,890,008</u>	<u>\$ 278,410</u>	<u>\$ 295,489</u>	<u>\$ 57,529</u>	<u>\$ 3,521,436</u>
	PROGRAM SERVICES	MARKETING AND SALES	MANAGEMENT AND GENERAL	FUNDRAISING	2023 TOTAL
Compensation and related costs	\$ 1,701,339	\$ 196,073	\$ 110,291	\$ 34,721	\$ 2,042,424
Rent	275,204	12,093	9,753	9,070	306,120
Production supplies	234,879				234,879
Royalties	131,866				131,866
Depreciation	123,091				123,091
Postage and printing	55,668	55,668	3,587	8,808	123,731
Professional services		16,519	24,721	15,229	56,469
Bank service fees			59,208		59,208
Advertising		52,280	214	5,471	57,965
Supplies	33,454	280	12,818	6,517	53,069
Insurance	19,408	960	23,310	170	43,848
Utilities	26,586	3,064	1,723	543	31,916
Repairs	15,659				15,659
Interest	25,825				25,825
Other	13,157		6,340	3,907	23,404
Total expenses	<u>\$ 2,656,136</u>	<u>\$ 336,937</u>	<u>\$ 251,965</u>	<u>\$ 84,436</u>	3,329,474
Cost of direct donor benefits					<u>18,975</u>
Total					<u>\$ 3,348,449</u>

See accompanying notes to financial statements.

Main Street Theater Houston

Statements of Cash Flows for the years ended August 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (590,763)	\$ 163,381
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	120,655	123,091
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	51,123	(35,726)
Contributions receivable	84,231	(131,221)
Operating lease right-of-use assets	95,230	22,792
Accounts payable and accrued expenses	107,577	34,749
Deferred revenue	(6,619)	45,712
Refundable advance – Shuttered Venue Operators Grant		(353,631)
Refundable advance – special events		(6,750)
Operating lease liabilities	<u>(93,430)</u>	<u>(22,072)</u>
Net cash used by operating activities	<u>(231,996)</u>	<u>(159,675)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(6,257)</u>	<u>(10,926)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds of notes payable	150,000	
Repayments of notes payable	<u>(25,004)</u>	<u>(27,339)</u>
Net cash provided (used) by financing activities	<u>124,996</u>	<u>(27,339)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(113,257)	(197,940)
Cash and cash equivalents, beginning of year	<u>297,228</u>	<u>495,168</u>
Cash and cash equivalents, end of year	<u>\$ 183,971</u>	<u>\$ 297,228</u>
<i>Reconciliation of cash balances:</i>		
Cash and cash equivalents	\$ 157,471	\$ 270,728
Cash restricted for capital expenditures	<u>26,500</u>	<u>26,500</u>
Total cash	<u>\$ 183,971</u>	<u>\$ 297,228</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$27,475	\$25,825
Operating right-of-use assets financed by operating lease liabilities		\$387,291

See accompanying notes to financial statements.

Main Street Theater Houston

Notes to Financial Statements for the years ended August 31, 2024 and 2023

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, 2024, contributions receivable of \$133,272 are due to be collected within one year.

Operating lease right-of-use assets are recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service. Operating lease right-of-use assets are amortized so that lease costs remain constant over the lease term.

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 events revenue includes elements of both contributions and exchange transactions and is recognized when the event occurs. Cost of direct donor benefits represent the costs 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 as performances occur. 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, 2024, 2023, or 2022. Deferred revenue from ticket sales was \$224,970, \$226,329, and \$185,306 at August 31, 2024, 2023 and 2022, 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 \$9,044, \$3,650 and \$4,425 at August 31, 2024, 2023 and 2022, respectively. Deferred revenue from tuition and fees was \$24,390, \$29,650 and \$24,961 at August 31, 2024, 2023, and 2022, 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>2024</u>	<u>2023</u>
Financial assets:		
Cash and cash equivalents	\$ 183,971	\$ 297,228
Contributions receivable	<u>133,272</u>	<u>217,503</u>
Total financial assets	317,243	514,731
Less financial assets not available for general expenditure:		
Cash restricted for capital expenditures	(26,500)	(26,500)
Donor-restricted assets for use in future periods or projects	<u> </u>	<u>(100,000)</u>
Total financial assets available for general expenditure	<u>\$ 290,743</u>	<u>\$ 388,231</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.

The Theater has suffered recurring operating losses and has a deficiency in working capital at August 31, 2024. During the years ended August 31, 2023 and 2022, the Theater received federal COVID funding of \$518,582 and \$707,291, respectively. No such funding was received during the year ended August 31, 2024. At August 31, 2024, the Theater has financial assets available for general expenditure of \$290,743 and current liabilities of \$308,895. Subsequent to year end, management has taken steps to reduce operating expenses by eliminating positions, reducing the number of performances and managing production costs while striving to maintain the quality of the Theater's programs. Additionally, fundraising efforts are targeted at celebrating the Theater's 50th anniversary in 2025. Management believes the Theater will be able to continue to meet its obligations through a comprehensive plan of increasing support and reducing costs.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2024</u>	<u>2023</u>
Bank deposits	\$ 183,971	\$ 180,418
Money market mutual funds	<u> </u>	<u>116,810</u>
Total cash and cash equivalents	<u>\$ 183,971</u>	<u>\$ 297,228</u>

NOTE 4 – OPERATING LEASES

At August 31, 2024, operating lease right-of-use assets and lease liabilities include facility leases for storing and sharing costumes and building scenery for the Theater. Right-of-use assets are recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service. Operating lease right-of-use assets are amortized so that lease costs remain constant over the lease term.

The Theater adopted the following policy elections for reporting leases:

- *Short-term leases* – The Theater has elected to not apply the recognition requirements in Accounting Standards Codification Topic 842 to short-term leases. Instead, these leases are recognized as expense on a straight-line basis over the lease term.
- *Discount rates* – The Theater elected to use its increment borrowing rate as the discount rate when the rate implicit in a lease is not readily determinable.

Lease costs associated with operating leases for the year ended August 31 are as follows:

	<u>2024</u>	<u>2023</u>
Short-term lease costs	\$ 224,665	\$ 279,800
Operating lease costs	107,160	26,320
Sublease revenue	<u>(33,600)</u>	<u>(37,400)</u>
Total lease costs	<u>\$ 298,225</u>	<u>\$ 268,720</u>

The Theater subleased the costume storage and sharing facility with a non-profit organization for \$33,600 and \$37,400 during 2024 and 2023, respectively.

Cash paid for amounts included in the measurement of operating lease liabilities was \$105,360 and \$26,320 during the years ended August 31, 2024 and 2023, respectively.

The weighted-average term and discount rates for the operating leases outstanding as of August 31:

	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term	36 months	47 months
Weighted-average discount rate	4.34%	4.35%

Future payments due under operating leases as of August 31, 2024 are as follows:

2025	\$ 106,440
2026	98,120
2027	52,200
2028	<u>35,280</u>
Total minimum lease payments	292,040
Less discount to present value	<u>(17,731)</u>
Total lease liabilities recognized	<u>\$ 274,309</u>

NOTE 5 – PROPERTY

Property is comprised of the following:

	<u>2024</u>	<u>2023</u>
Land	\$ 216,000	\$ 216,000
Building and improvements	3,329,965	3,329,965
Furniture and equipment	<u>215,593</u>	<u>209,337</u>
Total property, at cost	3,761,558	3,755,302
Accumulated depreciation	<u>(1,481,018)</u>	<u>(1,360,364)</u>
Property, net	<u>\$ 2,280,540</u>	<u>\$ 2,394,938</u>

NOTE 6 – NOTES 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.

In March 2024, the Theater entered into a \$200,000 loan agreement with a bank where the loan advances will be used for business operations. The loan bears interest at prime rate plus 1.75% (9.25% at August 31, 2024). The interest is due monthly, with remaining principal and accrued interest due at the maturity date of March 13, 2026. The loan is secured by real property and all assets of the Theater. At August 31, 2024, the outstanding principal balance is \$150,000.

Future principal payments are due as follows:

2025	\$	25,146
2026		27,147
2027		<u>1,012,323</u>
Total note payable	\$	<u>1,064,616</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2024</u>	<u>2023</u>
Subject to expenditure for specified purpose:		
The Charles and Betti Saunders Green Room	\$ 26,500	\$ 26,500
Production sponsorship	<u> </u>	<u>76,050</u>
Total subject to expenditure for specified purpose	26,500	102,550
Subject to passage of time:		
Contributions restricted for future operations	<u>248,867</u>	<u>313,953</u>
Total net assets with donor restrictions	<u>\$ 275,367</u>	<u>\$ 416,503</u>

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 20, 2025, 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.

Report to Management

June 20, 2025

Board of Directors
Main Street Theater Houston
3400 Main Street
Houston, Texas 77002

Dear Board Members:

In planning and performing our audit of the financial statements of Main Street Theater Houston (the Theater) as of and for the year ended August 31, 2024, in accordance with auditing standards generally accepted in the United States of America, we considered the Theater's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Theater's internal control. Accordingly, we do not express an opinion on the effectiveness of the Theater's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the following deficiencies to be material weaknesses:

Internal Control over Financial Reporting

Observation: Management is responsible for establishing and maintaining an effective system of internal control over financial reporting in order to prepare financial statements in accordance with generally accepted accounting principles. Without an effective system of controls, errors in financial reporting and fraud could occur and not be identified and corrected.

Background: Adjustments were required to properly report beginning net assets, contributions receivable, property, accounts payable and accrued expenses, refundable advances, operating right-of-use assets and lease liabilities.

Recommendation: Implement policies and procedures to ensure that accounts are properly analyzed and reconciled, and year-end closing entries are reviewed and recorded in a timely manner.

Payroll

Observation: Effective internal control requires that certain responsibilities such as authorization of transactions, recording of transactions in the accounting records, custody of and access to assets, and supervisory reviews be assigned to separate individuals. Such duties have not been segregated with respect to payroll and could result in unauthorized disbursements due to fraud or error.

Background: The Business Manager makes changes to payroll data, including pay rates and payees in the payroll system, processes payroll, and records payroll in the general ledger. There is no independent review of payroll registers. Additionally, during our payroll testing of 25 samples, we noted three of the payroll disbursements lacked the approved pay rate and timesheets to support the payroll amount.

Recommendation: Segregate the duties for authorizing and processing payroll and/or implement mitigating controls that strengthen the procedures to have payroll registers reviewed by an individual independent of the payroll process. Strengthen the procedures by emphasizing the maintenance of approved pay rates and timesheets.

Disbursements

Observation: Effective internal control requires approval of disbursements by appropriate personnel and that documentation be retained in the form of an invoice or receipt. Lack of controls over disbursement approval and requirement for proper documentation support could result in unauthorized disbursements due to fraud or error.

Background: During our testing of disbursements, we noted that 2 out of 25 samples tested lacked evidence of approval.

Recommendation: Re-emphasize the policies and procedures for documentation of approving disbursements.

Bank Reconciliations

Observation: Effective internal control over cash includes monthly reconciliation of all bank accounts. This process should include comparing and reconciling the bank balance to the general ledger balance and accurate and timely resolution of differences. Bank reconciliations not being performed accurately could result in errors or conceal misappropriations of cash.

Background: Although the Artistic Director performs monthly reconciliations of bank accounts, the reconciled checking bank balance was \$1,192 lower than the general ledger balance as of August 31, 2024.

Recommendation: Prepare monthly reconciliations of the bank balance to the ending balance reported in the general ledger and investigate any differences. Ensure that an independent review of bank reconciliations includes consideration of the resolution of differences.

This communication is intended solely for the information and use of management, the board of directors, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. We would be pleased to discuss these matters and recommendations with you further.

Yours truly,

Blazek & Vetterling