
The Ensemble Theatre

August 31, 2016

TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditor's Report</u>	1
<u>Financial Statements</u>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
<u>Notes to Financial Statements</u>	7

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Ensemble Theatre

Report on the Financial Statements

We have audited the accompanying financial statements of The Ensemble Theatre, which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 qualified audit opinion.

Basis for Qualified Opinion

The Ensemble Theatre had old outstanding checks that were previously treated as reconciling items for cash. These checks can no longer be legally cashed and therefore have been reclassified to accounts payable within the financial statements. We were unable to obtain sufficient appropriate audit evidence about whether these old uncashed checks are valid payables to the recipients or are erroneous items that should be removed. The total value of these checks is disclosed within Note 6 of the financial statements. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The Ensemble Theatre as of August 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Correction of an Error

As disclosed in Note 10, in the year ending August 31, 2016, the Organization restated its beginning net assets as of August 31, 2015 to correct errors. Our opinion is not modified with respect to this matter.



BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
May 5, 2017

The Ensemble Theatre
STATEMENT OF FINANCIAL POSITION
August 31, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,127,781
Pledges receivable, net	114,072
Prepaid expenses	69,142
TOTAL CURRENT ASSETS	1,310,995

Restricted cash - artist fund	15,000
Restricted cash - endowment fund	152,729
Fixed assets, net	2,060,700
TOTAL ASSETS	\$ 3,539,424

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 74,355
Accrued expenses	3,044
Deferred revenue	353,902
TOTAL CURRENT LIABILITIES	431,301

NET ASSETS

Unrestricted	2,940,394
Temporarily restricted	15,000
Permanently restricted	152,729
TOTAL NET ASSETS	3,108,123
TOTAL LIABILITIES AND NET ASSETS	\$ 3,539,424

The accompanying notes are an integral part of these financial statements.

The Ensemble Theatre

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Theatrical revenue	\$ 675,655	\$ -	\$ -	\$ 675,655
Grants and contributions	764,764	-	-	764,764
In-kind donations	-	136,733	-	136,733
Facility rental	66,437	-	-	66,437
Fundraisers	402,868	-	-	402,868
Artistic training	197,912	-	-	197,912
Investment income	2,339	-	229	2,568
Net assets released from restrictions	141,733	(141,733)	-	-
TOTAL REVENUE	<u>2,251,708</u>	<u>(5,000)</u>	<u>229</u>	<u>2,246,937</u>
EXPENSES				
Program services	1,486,586	-	-	1,486,586
Support services	300,397	-	-	300,397
Fundraising	232,277	-	-	232,277
TOTAL EXPENSES	<u>2,019,260</u>	<u>-</u>	<u>-</u>	<u>2,019,260</u>
Increase in net assets	232,448	(5,000)	229	227,677
Net assets, beginning of year	2,707,946	20,000	152,500	2,880,446
Net assets, end of year	<u>\$ 2,940,394</u>	<u>\$ 15,000</u>	<u>\$ 152,729</u>	<u>\$ 3,108,123</u>

The accompanying notes are an integral part of these financial statements.

The Ensemble Theatre

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$	227,677
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Amortization		2,816
Depreciation		140,483
Change in assets and liabilities:		
Pledges receivable		55,927
Prepaid expenses		(25,435)
Restricted cash - artist fund		5,000
Restricted cash - endowment fund		(229)
Accounts payable		66,338
Accrued expenses		3,044
Deferred revenue		27,585
Net cash provided by operating activities		<u>503,206</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of fixed assets		(113,677)
Net cash used in investing activities		<u>(113,677)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on notes payable		(125,789)
Net cash used in financing activities		<u>(125,789)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

		263,740
Cash and cash equivalents, beginning of period		864,041
Cash and cash equivalents, end of period	\$	<u>1,127,781</u>

The accompanying notes are an integral part of these financial statements.

The Ensemble Theatre
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2016

	Program -Artistic			Total
	Productions	Supporting	Fundraising	
Payroll	\$ 350,101	137,918	42,436	530,455
Payroll taxes	28,223	11,118	3,421	42,762
Bank charges	-	9,371	-	9,371
Bad debt expense	-	-	25,048	25,048
Building repairs and maintenance	105,748	15,862	-	121,610
Contract labor	325,938	37,978	-	363,916
Equipment rental	9,531	1,430	-	10,961
Health insurance	44,558	17,553	5,401	67,512
Insurance	31,991	-	-	31,991
Interest & finance charges	-	818	-	818
Legal and professional	-	16,484	-	16,484
Marketing and promotion	69,539	-	-	69,539
Miscellaneous	-	1,344	-	1,344
Payroll services	5,358	2,111	650	8,119
Postage & delivery	6,229	-	-	6,229
Printing costs	2,196	329	-	2,525
Production costs	87,500	-	-	87,500
Professional staff development	-	4,667	-	4,667
Royalties	29,034	-	-	29,034
Special events	29,242	7,310	155,321	191,873
Storage	9,810	-	-	9,810
Supplies & materials	9,886	1,483	-	11,369
Telephone & internet lines	11,523	1,728	-	13,251
Temporary office help	-	1,060	-	1,060
Utilities	71,287	10,693	-	81,980
Marketing and promotion - in-kind	136,733	-	-	136,733
Amortization expense	-	2,816	-	2,816
Depreciation expense	122,159	18,324	-	140,483
	<u>\$ 1,486,586</u>	<u>\$ 300,397</u>	<u>\$ 232,277</u>	<u>\$ 2,019,260</u>

The accompanying notes are an integral part of these financial statements.

The Ensemble Theatre

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended August 31, 2016

NATURE OF OPERATIONS

The Ensemble Theatre (the "Organization") is a not-for-profit corporation organized under the laws of the State of Texas on June 1, 1977. The Organization was organized to preserve African-American artistic expression and to enlighten, entertain and enrich a diverse community. In addition to its stage productions, the Organization provides educational opportunities through its Young Performers Program and its Tour Education Program.

Funding for the Organization is provided by corporate contributions, grants, donations from foundations and individuals, and artistic and other earned revenue.

BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Net Asset Classification

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization and/or the passage of time. When donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets

The Ensemble Theatre

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended August 31, 2016

are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets that are subject to donor-imposed restrictions that specify assets are donated to be invested to provide a permanent source of income.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unrestricted contributions, grants, and donor bequests and donor-restricted contributions, grants, and donor bequests to the Organization are recorded as revenue.

Nonreciprocal revenues or contributions are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions or conditions. Expiration of donor-imposed restrictions (i.e., the donor-stipulated purpose has been satisfied) is reported as satisfaction of program restrictions. The Organization reports donations as unrestricted revenue when the donor does not restrict its use as well as when the donor's restrictions are met in the same reporting period.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

When donor-restricted funds are expended, they are either capitalized or expensed, whichever is applicable. Estimates of completion are based on judgments by management and the donor. Those judgments are based on specific requirements of the donor agreements and the amount of work completed.

Revenues from all other sources are recognized when earned.

Deferred Revenue

Deferred revenue represents subscriptions and contributions received during the current fiscal period for which revenue recognition has been deferred to another fiscal period. Deferred revenue will be reclassified to revenue in a subsequent fiscal period when earned. As of August 31, 2016, the deferred revenue balance was \$353,902.

The Ensemble Theatre

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended August 31, 2016

Cash and Cash Equivalents

The Organization considers all cash on hand, demand bank deposits, and short-term highly liquid investments that are both readily convertible to cash and have an original maturity of three months or less when purchased to be cash or cash equivalents. As of August 31, 2016, the Organization held \$152,729 within a money market account considered to be a cash equivalent.

Receivables

Accounts Receivables are primarily amounts due from third parties as a result of patrons purchasing services via credit card. Pledges receivable represent patron unconditional pledges to the Organization that had not been collected as of August 31, 2016. As of August 31, 2016, approximately \$63,496 has been recorded within the allowance for doubtful accounts representing amounts management believes are at risk for collection.

Financial Instruments and Credit Risk

The Organization's financial instruments consist of cash, pledges receivable, prepaid expenses, restricted cash, accounts payable, accrued expenses, and deferred revenue. The estimated fair value of these respective items approximate their carrying amounts due to the short-term nature of these instruments.

In the case of cash and restricted cash, custodial credit risk is the risk that in the event of a bank failure, the Organization's bank deposit balances, which are deposited in demand accounts in federally insured domestic institutions to minimize risk, may exceed the insurance coverage guaranteed by the Federal Deposit Insurance Corporation (FDIC) may not be returned to it. The Organization's cash balances were above the FDIC threshold for the entire year. As of August 31, 2016, the cash balance held at banks exceeded FDIC coverage by \$836,295.

Donated Materials and Services ("In-Kind" donations)

Donated materials are reflected as contributions in the accompanying statements at their estimated values at date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. The Organization recognizes donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. The value of other donated services is not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services. However, a substantial number of volunteers, including the Board of Directors, have donated significant amounts of their time in the Organization's efforts.

The Ensemble Theatre

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended August 31, 2016

Fixed Assets and Depreciation

All asset purchases are recorded at cost when purchased. The Organization defines assets with a life of over one year and a cost of over \$500 as fixed assets that are to be capitalized and depreciated. Donated assets are recorded at fair market value on the date acquired. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Depreciation has been calculated on the asset's estimated useful life for each class of depreciable property using the straight-line method as follows:

Buildings & improvements	10 - 39 years
Furniture and equipment	5 - 10 years

Functional Expenses

Expenses are charged directly to program, support or fundraising in general categories based on specific identification. Certain indirect costs have been allocated among programs and supporting services based on estimated time spent in support of those activities and the percentage of overall direct charges incurred for program and supporting services.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, the Organization has made no provision for federal income taxes in the accompanying financial statements.

NOTE 2 – CONCENTRATION OF RISKS

The Organization receives a large portion of its funds through public contributions and grants. Any of the funding sources may, at their discretion, terminate the funding. Thus, the Organization operates in an environment subject to the risk of annual funding renewals.

As of August 31, 2016, the Organization had two receivables outstanding that consisted of 31% and 25% of total pledge receivables, respectively.

During the year ended August 31, 2016, the Organization earned revenue of \$290,115 from federal grants received as a sub-recipient from other municipalities and organizations.

The Ensemble Theatre
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended August 31, 2016

NOTE 3 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

In January 2008, the Organization established The Gilbert Hicks IV Endowment Fund which was funded by contributions. The fund was established to ensure the long-term financial stability of the Organization. All contributions to the fund and earnings of the fund are permanently restricted until the fund balance reaches \$500,000 at which time distributions can be made from the fund to support the operations of the Organization. As of August 31, 2016, the balance in the endowment was \$152,729.

In July 2013, the Organization established the Linnet Deily Guest Artist Fund which was funded by contributions. The fund was established to be used for a period of five years (a maximum of \$5,000 per year) as an additional resource to bring an exceptionally talented female artist to the Ensemble main stage. At the end of the 5 years, any remaining portion of the contribution plus the interest earned will be transferred to The Gilbert Hicks IV Endowment account. As of August 31, 2016, the balance in the artist fund was \$15,000.

At August 31, 2016, the Organization had total net assets of \$3,108,123, which consisted of \$2,940,394 of unrestricted net assets, \$15,000 of temporarily restricted net assets, and \$152,729 of permanently restricted net assets. Temporarily restricted and permanently restricted net assets consisted of the following:

Restricted net assets:	8/31/2016
Temporarily restricted net assets	
Restricted - artist fund	\$ 15,000
Permanently restricted net assets	
Gilbert Hicks IV Endowment Fund	152,729
TOTAL	\$ 167,729

The Ensemble Theatre
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended August 31, 2016

NOTE 4 – FIXED ASSETS

A detail of the Organization's fixed asset costs and related accumulated depreciation for the year ending August 31, 2016 is as follows:

	<u>8/31/15</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>8/31/16</u> <u>Balances</u>
Fixed assets, not being depreciated:				
Land	\$ 37,676	\$ -	\$ -	\$ 37,676
Artwork	50,537	-	-	50,537
Total fixed assets not being depreciated	<u>88,213</u>	<u>-</u>	<u>-</u>	<u>88,213</u>
Fixed assets, being depreciated:				
Furniture and equipment	244,260	-	-	244,260
Building and improvements	3,703,165	113,677	-	3,816,842
Total fixed assets being depreciated	<u>3,947,425</u>	<u>113,677</u>	<u>-</u>	<u>4,061,102</u>
Less accumulated depreciation				
Furniture and equipment	(203,328)	(8,696)	-	(212,024)
Building and improvements	(1,744,804)	(131,787)	-	(1,876,591)
Total accumulated depreciation	<u>(1,948,132)</u>	<u>(140,483)</u>	<u>-</u>	<u>(2,088,615)</u>
Net fixed assets being depreciated	<u>1,999,293</u>	<u>(26,806)</u>	<u>-</u>	<u>1,972,487</u>
Total Fixed Assets	<u>\$ 2,087,506</u>	<u>\$ (26,806)</u>	<u>\$ -</u>	<u>\$ 2,060,700</u>

Depreciation expense was \$140,483 for the year ending August 31, 2016.

NOTE 5 – FEDERAL INCOME TAX

The Ensemble Theatre is a non-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

NOTE 6 – ACCOUNTS PAYABLE

	<u>8/31/2016</u>
Accounts payable:	
Current accounts payable	\$ 12,698
Accounts payable reclassified from old outstanding checks outstanding	61,657
TOTAL	<u>\$ 74,355</u>

The Ensemble Theatre
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended August 31, 2016

NOTE 7 – NOTE PAYABLE

In June 2013, the Organization entered into a loan of \$400,000 with a fixed interest rate of 4.95% and a maturity of May 2023. Interest and principal payments are due monthly. Portions of the proceeds from the loan were used to retire debt of \$149,642 and to fund capital expenditures.

During the year ending August 31, 2016, this note was paid off in full with principal payments totaling \$125,789.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Organization received event management services from a vendor that is owned and operated by a member of the board of directors. The Organization paid \$35,128 for these services during the year ended August 31, 2016. The Organization also paid a marketing company owned by another member of the board of directors \$10,528 for marketing materials and services during the year ended August 31, 2016.

Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free market dealings may not exist. Representations about transactions with related parties, if made shall not imply the related parties transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated.

NOTE 9 – GRANTS

The Organization receives federal grants as a sub-recipient from other municipalities and nonprofit organizations. Grants were received or pledged from the following municipalities and organizations during the year ended August 31, 2016:

Houston Arts Alliance	\$79,615
Houston Endowment	\$145,000
Texas Commission of the Arts	\$65,500

The Ensemble Theatre
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended August 31, 2016

NOTE 10 – RESTATEMENT OF AUGUST 31, 2015 NET ASSETS

Due to the correction of accounting errors related to cash and fixed assets, the Organization restated its beginning net assets as of August 31, 2015. The table below summarize the changes to net assets as a result of these corrections.

	August 31, 2015
Prior year ending net assets, as reported	\$ 3,087,233
Adjust accumulated depreciation for fixed assets	(164,407)
Remove uncleared outstanding deposits from cash balance	(42,380)
Restated beginning net position	\$ 2,880,446

NOTE 11 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through May 5, 2017, the date the financial statements were available to be issued.

NOTE 12 – NEW ACCOUNTING PRONOUNCEMENTS

The FASB issued Accounting Standards Update No. 2016-14, entitled *Presentation of Financial Statements of Not-for-Profit Entities*. The provisions of this update are effective for reporting periods beginning after December 15, 2017. The update requires two classes of net assets are reported on the statement of net position rather than three as currently is required; net assets with donor restriction and net assets without donor restrictions will be the new classifications. The same change in classifications will be applied to the statement of activities. The update also enhances various disclosures with the footnotes to the financial statements. The update will impact the yearend financial reporting for the Organization in the year ended August 31, 2019. The change will result in more disclosures and the aforementioned change in presentation of the statement of financial position and statement of activities.