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**The Ensemble Theatre**

**August 31, 2018**

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## *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, 2018, and the related statements of activities, cash flows, and functional expenses 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 audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Ensemble Theatre as of August 31, 2018, 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, 2018, the Organization restated its beginning net assets as of August 31, 2017 to correct an error. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, flowing script.

BrooksWatson & Co., PLLC  
Certified Public Accountants  
Houston, Texas  
November 1, 2019

**The Ensemble Theatre**  
**STATEMENT OF FINANCIAL POSITION**  
**August 31, 2018**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 1,661,458
Pledges receivable, net	56,955
Prepaid expenses	99,435
Investments	250,000
<b>TOTAL CURRENT ASSETS</b>	<u>2,067,848</u>

Restricted cash - endowment fund	158,189
Fixed assets, net	1,818,457
<b>TOTAL ASSETS</b>	<u>\$ 4,044,494</u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 83,798
Deferred revenue	519,571
<b>TOTAL CURRENT LIABILITIES</b>	<u>603,369</u>

**NET ASSETS**

Unrestricted	3,282,936
Permanently restricted	158,189
<b>TOTAL NET ASSETS</b>	<u>3,441,125</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 4,044,494</u>

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

# The Ensemble Theatre

## STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND SUPPORT</b>				
Theatrical revenue	\$ 649,404	\$ -	\$ -	\$ 649,404
Grants and contributions	762,202	-	-	762,202
In-kind donations	47,108	-	-	47,108
Facility rental	61,375	-	-	61,375
Fundraisers	283,789	-	-	283,789
Artistic training	185,011	-	-	185,011
Investment income	896	-	229	1,125
Net assets released from restrictions	5,000	(10,000)	5,000	-
<b>TOTAL REVENUE</b>	<u>1,994,785</u>	<u>(10,000)</u>	<u>5,229</u>	<u>1,990,014</u>
<b>EXPENSES</b>				
Program activities	1,502,571	-	-	1,502,571
Supporting activities:				
Management & General	296,635	-	-	296,635
Fundraising	204,505	-	-	204,505
<b>TOTAL EXPENSES</b>	<u>2,003,711</u>	<u>-</u>	<u>-</u>	<u>2,003,711</u>
Increase (decrease) in net assets	(8,926)	(10,000)	5,229	(13,697)
Net assets, beginning of year	3,291,862	10,000	152,960	3,454,822
Net assets, end of year	<u>\$ 3,282,936</u>	<u>\$ -</u>	<u>\$ 158,189</u>	<u>\$ 3,441,125</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, 2018

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Decrease in net assets	\$ (13,697)
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	147,665
Change in assets and liabilities:	
Pledges receivable	74,709
Prepaid expenses	(50,464)
Accounts payable	5,657
Deferred revenue	176,738
<b>Net cash provided by operating activities</b>	<u>340,608</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Acquisition of investments	(250,000)
Acquisition of fixed assets	(11,670)
<b>Net cash used in investing activities</b>	<u>(261,670)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	78,938
Cash and cash equivalents, beginning of period	1,740,709
Cash and cash equivalents, end of period	<u>\$ 1,819,647</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, 2018**

	<b>Program -Artistic Productions</b>	<b>Management &amp; General</b>	<b>Fundraising</b>	<b>Total</b>
Payroll	\$ 377,892	\$ 148,865	\$ 45,805	\$ 572,562
Payroll taxes	29,369	11,569	3,560	44,498
Bank charges	-	2,025	-	2,025
Building repairs and maintenance	69,895	10,484	-	80,379
Contract labor	374,842	43,676	-	418,518
Equipment rental	9,432	1,415	-	10,847
Health insurance	40,596	15,992	4,921	61,509
Insurance	30,063	4,492	-	34,555
Interest & finance charges	-	1,428	-	1,428
Legal and professional	26,276	3,941	-	30,217
Marketing and promotion	81,950	-	-	81,950
Miscellaneous	-	2,082	-	2,082
Payroll services	5,970	2,352	724	9,046
Postage & delivery	4,259	-	-	4,259
Printing costs	4,291	644	-	4,935
Production costs	110,955	-	-	110,955
Production costs - in-kind	39,948	-	7,160	47,108
Professional staff development	-	6,242	-	6,242
Royalties	27,254	-	-	27,254
Security services	13,730	2,060	-	15,790
Special events	26,797	6,699	142,335	175,831
Storage	11,258	-	-	11,258
Supplies & materials	13,223	1,983	-	15,206
Telephone & internet lines	9,018	1,353	-	10,371
Utilities	67,149	10,072	-	77,221
Depreciation expense	128,404	19,261	-	147,665
	<u>\$ 1,502,571</u>	<u>\$ 296,635</u>	<u>\$ 204,505</u>	<u>\$ 2,003,711</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, 2018

### 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, 2018

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.

The Organization earns a portion of revenue through charges for services provided to customers. These services consist of the following: 1) ticket sales for theatrical productions, 2) season subscriptions for theatrical productions, 3) charges for programs delivered such as artistic training, and 4) rental of facilities. Revenue is recognized for these services when an arrangement exists, the price is fixed or determinable, delivery of the service has occurred, and collectability is reasonably assured.

### 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

**The Ensemble Theatre**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2018**

revenue will be reclassified to revenue in a subsequent fiscal period when earned. As of August 31, 2018, the deferred revenue balance was \$519,571.

Revenue for season subscriptions is deferred when collected and recognized ratably over the show season consistent with the season’s scheduled showings. The show season typically begins in September and concludes in July.

**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, 2018, the Organization held \$153,189 within a money market account considered to be a cash equivalent.

All cash and cash equivalents are included within cash and cash equivalents disclosed within the Statement of Cash Flows. This includes restricted cash amounts. The following is the composition of cash and cash equivalents at August 31, 2018 on the Statement of Cash Flows:

Cash and Cash Equivalents:	<u>Yearend balance</u>
Cash and Cash Equivalents	\$ 1,661,458
Restricted cash - endowment fund cash	5,000
Restricted cash - endowment fund money market	153,189
Total Cash and Cash Equivalents	<u>\$ 1,819,647</u>

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, 2018, the balance in the endowment was \$158,189.

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, 2018, the balance in the artist fund was \$0.

# **The Ensemble Theatre**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the Year Ended August 31, 2018**

### **Pledges Receivables**

Pledges receivable represent patron unconditional pledges to the Organization that had not been collected as of August 31, 2018. As of August 31, 2018, approximately \$77,435 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, investments (certificates of deposit), 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, restricted cash, and certificates of deposit, 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, 2018, the cash and cash equivalents balance held at banks exceeded FDIC coverage by \$1,069,647.

### **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, 2018**

The following is the composition of in-kind revenues and expenses recognized during the year ended August 31, 2018:

In-Kind Revenues and Expenses:	<b>Amount</b>
Marketing and Promotion - Fundraising	\$ 2,160
Production costs - Program	39,948
Special events - Fundraising	5,000
Total In-Kind Revenues and Expenses	\$ 47,108

**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.

**The Ensemble Theatre**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2018**

**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, 2018, the Organization had two receivables outstanding that consisted of 19%, of net pledge receivables, respectively. These balances were fully collected after year-end.

**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, 2018, the balance in the endowment was \$158,189.

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, 2018, the balance in the artist fund was \$0.

At August 31, 2018, the Organization had total net assets of \$3,441,125 which consisted of \$3,282,936 of unrestricted net assets, and \$158,189 of permanently restricted net assets. Permanently restricted net assets consisted of the following:

Restricted net assets:	<b>8/31/2018</b>
Permanently restricted net assets	
Gilbert Hicks IV Endowment Fund	158,189
TOTAL	\$ 158,189

**The Ensemble Theatre**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2018**

**NOTE 4 – INVESTMENTS**

A detail of the Organization’s investments as of August 31, 2018 is as follows:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Redemption Value</u>	<u>Yearend Value</u>
6 month term certificate of deposit	<1%	12/28/2018	125,000	125,000
12 month term certificate of deposit	<1%	12/29/2018	125,000	125,000
<b>TOTAL INVESTMENTS</b>			<u>\$ 250,000</u>	<u>\$ 250,000</u>

**NOTE 5 – FIXED ASSETS**

A detail of the Organization’s fixed asset costs and related accumulated depreciation for the year ending August 31, 2018 is as follows:

	<u>8/31/2017 Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>8/31/2018 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	247,544	11,670	-	259,214
Building and improvements	3,855,297	-	-	3,855,297
Total fixed assets being depreciated	<u>4,102,841</u>	<u>11,670</u>	<u>-</u>	<u>4,114,511</u>
Less accumulated depreciation				
Furniture and equipment	(219,681)	(8,063)	-	(227,744)
Building and improvements	(2,016,921)	(139,602)	-	(2,156,523)
Total accumulated depreciation	<u>(2,236,602)</u>	<u>(147,665)</u>	<u>-</u>	<u>(2,384,267)</u>
Net fixed assets being depreciated	<u>1,866,239</u>	<u>(135,995)</u>	<u>-</u>	<u>1,730,244</u>
<b>Total Fixed Assets</b>	<u>\$ 1,954,452</u>	<u>\$ (135,995)</u>	<u>\$ -</u>	<u>\$ 1,818,457</u>

Depreciation expense was \$147,665 for the year ending August 31, 2018.

**NOTE 6 – 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.

**The Ensemble Theatre**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2018**

**NOTE 7 – ACCOUNTS PAYABLE**

Accounts payable:	<u>8/31/2018</u>
Current accounts payable	\$ 61,255
Accounts payable reclassified from old outstanding checks outstanding	22,543
TOTAL	<u>\$ 83,798</u>

**NOTE 8 – SUBSEQUENT EVENTS**

The Organization had no material subsequent events after the balance sheet date through the date the financial statements were available to be issued. The Organization evaluated subsequent events through November 1, 2019, the date the financial statements were available to be issued.

**NOTE 9 – 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 year-end 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.

**NOTE 10 – RESTATEMENT OF AUGUST 31, 2017 NET ASSETS**

Due to the correction of accounting errors related to cash, the Organization restated its beginning net assets as of August 31, 2017. The table below summarize the changes to net assets as a result of these corrections.

	<u>August 31,</u> <u>2017</u>
Prior year ending net assets, as reported	\$ 3,385,472
Void old reconciling disbursements that were bookkeeping errors	69,350
Restated beginning net position	<u>\$ 3,454,822</u>