

The Ensemble Theatre

Financial Statements

For the Years ended August 31, 2015 and 2014

With Report of Independent Auditor

Earl E. Allen, Jr. P.C.
Certified Public Accountant

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Independent Auditor's Report

Board of Directors The Ensemble Theatre

I have audited the accompanying financial statements of The Ensemble Theatre (a Texas Non-profit Corporation), which comprise the statements of financial position as of August 31, 2015 and 2014, and the related statements of activities, functional expenses and 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 controls 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 these 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 controls 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Ensemble Theatre 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.



Houston, Texas
April 22, 2016

THE ENSEMBLE THEATRE
STATEMENTS OF FINANCIAL POSITION
AUGUST 31

Assets		
	2015	2014
Current Assets		
Cash	\$ 906,421	\$ 958,489
Accounts receivable	-	29,797
Pledges receivable	211,762	157,908
Allowance for uncollectible pledges	(41,763)	(4,250)
Prepaid expenses	<u>43,707</u>	<u>55,214</u>
Total Current Assets	1,120,127	1,197,158
Restricted - artist fund	20,000	25,000
Restricted endowment fund	152,500	152,272
Noncurrent Assets		
Property and Equipment	4,035,638	4,016,447
Less: Accumulated depreciation and amortization	<u>(1,783,725)</u>	<u>(1,657,314)</u>
Net property and equipment	<u>2,251,913</u>	<u>2,359,133</u>
Loan closing costs, net	<u>2,816</u>	<u>4,969</u>
Total noncurrent assets, net	2,254,729	2,364,102
Total Assets	<u><u>\$ 3,547,356</u></u>	<u><u>\$ 3,738,532</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 8,017	\$ 2,461
Note payable - current	45,546	33,588
Unearned revenue	<u>326,317</u>	<u>285,012</u>
Total Current Liabilities	379,880	321,061
Long Term Liabilities		
Note payable - long term	<u>80,243</u>	<u>329,407</u>
Total Long-term Liabilities	80,243	329,407
Net Assets		
Unrestricted net assets	<u>2,914,733</u>	<u>2,910,792</u>
Unrestricted net assets	2,914,733	2,910,792
Temporarily restricted net assets		
Restricted by donor	20,000	25,000
Permanently restricted net assets	<u>152,500</u>	<u>152,272</u>
Total Net Assets	3,087,233	3,088,064
Total Liabilities and Net Assets	<u><u>\$ 3,547,356</u></u>	<u><u>\$ 3,738,532</u></u>

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

**THE ENSEMBLE THEATRE
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
Revenue and Support					
Artistic revenue	\$ 802,567	\$ -	\$ -	\$ 802,567	\$ 728,526
Contributions	351,208	-	-	351,208	384,344
In-Kind Contributions					
Program	86,648	-	-	86,648	109,869
Grants and foundations	354,063	-	-	354,063	320,985
Facility rental	45,552	-	-	45,552	52,382
Fundraising proceeds	343,008	-	-	343,008	423,332
Investment income	845	-	228	1,073	356
Total Revenue and Support	<u>1,983,891</u>	<u>-</u>	<u>228</u>	<u>1,984,119</u>	<u>2,019,794</u>
Net assets released from restrictions	5,000	(5,000)	-	-	-
Total Revenue and Support and net assets released from restrictions	<u>1,988,891</u>	<u>(5,000)</u>	<u>228</u>	<u>1,984,119</u>	<u>2,019,794</u>
Expenses					
Program services	1,499,423	-	-	1,499,423	1,419,122
Support services					
Management and general	288,246	-	-	288,246	284,520
Fundraising	197,281	-	-	197,281	235,954
Total support services	<u>485,527</u>	<u>-</u>	<u>-</u>	<u>485,527</u>	<u>520,474</u>
Total Expenses	<u>1,984,950</u>	<u>-</u>	<u>-</u>	<u>1,984,950</u>	<u>1,939,596</u>
(Decrease) Increase in Net Assets	3,941	(5,000)	228	(831)	80,198
Net Assets, Beginning of Year	<u>2,910,792</u>	<u>25,000</u>	<u>152,272</u>	<u>3,088,064</u>	<u>3,007,866</u>
Net Assets, End of Year	<u>\$ 2,914,733</u>	<u>\$ 20,000</u>	<u>\$ 152,500</u>	<u>\$ 3,087,233</u>	<u>\$ 3,088,064</u>

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

THE ENSEMBLE THEATRE
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31

	<u>Program Services</u>	<u>Support Services</u>	<u>Fundraising</u>	<u>Total 2015</u>	<u>Total 2014</u>
Salaries and wages	\$ 333,381	\$ 131,775	\$ 40,546	\$ 505,702	\$ 504,903
Payroll taxes	29,363	11,567	3,559	44,489	46,926
Total salaries and related benefits	362,744	143,342	44,105	550,191	551,829
Bank charges and credit card expense	6,896	453	-	7,349	8,586
Bad debt expense	41,763	-	-	41,763	4,250
Building repairs and maintenance	103,207	15,481	-	118,688	86,755
Contract labor	335,244	39,062	-	374,306	385,198
Equipment rental	13,403	2,010	-	15,413	13,100
General building expense	-	1,126	-	1,126	8,661
Health insurance	41,107	16,194	4,983	62,284	67,526
Insurance - other	30,924	-	-	30,924	29,885
Interest and finance charges	-	13,588	-	13,588	18,965
Legal and professional	16,904	2,536	-	19,440	16,726
Marketing and promotion	91,655	-	-	91,655	78,456
Miscellaneous	-	3,798	-	3,798	1,445
Payroll services	7,075	1,061	-	8,136	8,239
Postage and delivery	4,801	-	-	4,801	6,611
Printing costs	5,113	767	-	5,880	6,984
Production costs	168,109	-	-	168,109	149,529
Professional staff development	-	9,224	-	9,224	7,309
Royalties	18,823	-	-	18,823	29,873
Security services	3,364	505	-	3,869	3,726
Special events	27,900	6,975	148,193	183,068	230,273
Storage	5,430	-	-	5,430	5,329
Supplies and materials	10,825	1,624	-	12,449	9,163
Telephone and internet lines	14,891	2,234	-	17,125	17,518
Temporary office help	805	-	-	805	1,160
Utilities	76,645	11,497	-	88,142	63,935
Total expenses before depreciation and amortization	1,387,628	271,477	197,281	1,856,386	1,811,031
Amortization expense	864	129	-	993	993
Depreciation expense	110,931	16,640	-	127,571	127,572
Total expenses	<u>\$ 1,499,423</u>	<u>\$ 288,246</u>	<u>\$ 197,281</u>	<u>\$ 1,984,950</u>	<u>\$ 1,939,596</u>

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

**THE ENSEMBLE THEATRE
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31**

Cash Flows from Operating Activities

	2015	2014
Decrease in net assets	\$ (831)	\$ 80,198
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	128,564	128,565
Restricted cash endowment	4,772	4,771
Decrease in accounts receivable	29,167	(26,305)
Increase in pledges receivable	(56,354)	(18,421)
Increase in allowance of uncollectible pledges	37,513	-
Decrease in prepaid expenses	11,507	24,387
Increase in unearned revenue	36,495	(9,272)
Increase in accounts payable and other current liabilities	<u>4,411</u>	<u>(5,884)</u>
Total adjustments	196,075	97,841
Net cash provided by operating activities	195,244	178,039
Cash Flows Used by Investing Activities		
Purchase of property and equipment	<u>(10,106)</u>	<u>(4,134)</u>
Net cash used by investing activities	(10,106)	(4,134)
Cash Flows (Used)/Provided by Financing Activities		
Repayment of note payable	<u>(237,206)</u>	<u>(31,829)</u>
Net cash used by financing activities	(237,206)	(31,829)
Net Increase in Cash and Cash Equivalents	(52,068)	142,076
Cash, Beginning of year	958,489	816,413
Cash, End of Year	<u>\$ 906,421</u>	<u>\$ 958,489</u>
Supplemental Disclosure of Cash Flows		
Cash paid during year for interest	<u>\$ 13,588</u>	<u>\$ 18,965</u>

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

**THE ENSEMBLE THEATRE
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015**

1. Purpose of Business

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles for not-for-profit organizations. Financial statements of not-for-profit organizations are required to present Net Assets as Unrestricted, Temporarily restricted, and Permanently restricted.

- Unrestricted net assets - Net assets not subject to externally imposed stipulations. Net assets in this category may be designated for specific purposes by action of the Board of Directors of The Ensemble.
- Temporarily restricted net assets – Net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of The Ensemble pursuant to those stipulations. Net assets in this category generally expire with the passage of time.
- Permanently restricted net assets – Net assets subject to externally imposed stipulations that The Ensemble maintains such assets permanently.

Cash and Cash Equivalents

All cash of The Ensemble is in either checking or demand deposit accounts. All liquid investments with maturities of three months or less are considered cash equivalents.

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 Ensemble that had not been collected as of August 31, 2015. As of August 31, 2015, and 2014, approximately \$41,763 and \$4,250 respectively have been recorded as allowance for doubtful accounts representing amounts management believe are at risk for collection.

**THE ENSEMBLE THEATRE
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015**

Property and Equipment

Property and equipment are recorded at cost. Donated assets are recorded at their estimated fair market value on the date of gift. Depreciation and amortization is computed using the straight-line method over estimated useful lives of five to ten years for furniture, equipment, and software and thirty-nine years for the building. The Ensemble capitalizes all property and equipment purchases in excess of \$500 if the estimated life of the asset is more than one year.

Revenue Recognition

Contributions, grants, and other donations are recognized as revenue when they are received or recognized in revenue ratably over the period in which they are unconditionally pledged. Such amounts collected in the current period but applicable to the following period are deferred and included in the accompanying financial statements as unearned revenue.

All contributions received are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Amounts received which are temporarily restricted by the donor or grantor stipulations are reflected as temporarily restricted net assets. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Revenues from all other sources are recognized when earned.

Unearned Revenue

Unearned revenue represents subscriptions and contributions received during the current fiscal period for which revenue recognition has been deferred to another fiscal period. Unearned revenue will be reclassified to revenue in a subsequent fiscal period when earned. As of August 31, 2015 and 2014, the unearned revenue balances were \$326,317 and \$285,012, respectively.

In-Kind Contributions

The Ensemble was the beneficiary of goods and services that were donated during the period in support of programs and services it provides. All donated goods and services received are recorded at their fair value. The aggregate estimated amount of goods received and services provided is reflected in the statement of activities as in-kind contributions with a corresponding amount spread among several expense categories with approximately \$86,648 and \$109,869, respectively for August 31, 2015 and 2014.

Functional Allocation of 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.

**THE ENSEMBLE THEATRE
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015**

Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include the useful lives of property and equipment for the purpose of determining depreciation, the valuation of contributed assets, and the allocation of indirect costs.

3. Concentration of Risks

The Ensemble 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 Ensemble operates in an environment subject to the risk of annual funding renewals.

4. Fair Value

The Financial Accounting Standards Board issued ASC 820 (formerly FAS 157), *Fair Value Measurements*, which was effective for The Ensemble's fiscal year ended August 31, 2015. ASC 820 defined fair value as "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 standard established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three levels.

Level 1 – Quoted prices are available in active markets for identical assets as of the reporting date.

Level 2 – Other observable market data; like-kind valuations.

Level 3 – Unobservable inputs for the assets; the inputs into the determination of fair value require significant management judgment or estimation.
This standard had no impact on the financial statements of The Ensemble.

5. Net Assets

In January 2008, The Ensemble 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 Ensemble. 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 Ensemble. As of August 31, 2015, and 2014, the balance in the endowment was \$152,500, and \$152,272, respectively.

In July 2013, the Ensemble 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, 2015 and 2014, the balances in the artist fund were \$20,000, and \$25,000, respectively.

**THE ENSEMBLE THEATRE
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015**

5. Net Assets-continued

At August 31, 2015 and 2014, The Ensemble had total net assets of \$3,088,064 and \$3,088,064, respectively which consisted of \$2,910,792 and \$2,910,792, respectively of unrestricted net assets and, \$25,000 and \$25,000, respectively of temporarily restricted net assets and, \$152,500 and \$152,272, respectively of permanently restricted net assets. Temporarily restricted and permanently restricted net assets consisted of the following:

Restricted net assets:	<u>2015</u>	<u>2014</u>
Temporarily restricted net assets	\$ 20,000	\$25,000
Restricted - artist fund		
Permanently restricted net assets	<u>152,500</u>	<u>152,272</u>
Gilbert Hicks IV Endowment Fund		
 Total	 <u>\$172,500</u>	 <u>\$177,272</u>

6. Property and Equipment -

The following is a detail of property and equipment at August 31:

	<u>2015</u>	<u>2014</u>
Land	\$37,676	\$37,676
Furniture an equipment	244,260	232,062
Building	3,703,165	3,696,172
Artwork	<u>50,537</u>	<u>50,537</u>
Total Property and Equipment	<u>4,035,638</u>	<u>4,016,447</u>
 Less: Accumulated Depreciation and Amortization	 <u>(1,783,725)</u>	 <u>(1,657,314)</u>
 Net Property and equipment, net	 <u>\$ 2,251,913</u>	 <u>\$2,359,133</u>

Depreciation and amortization expense of \$128,565, and \$128,565 was recorded for the 12-month periods ended August 31, 2015 and 2014, respectively.

7. Financial Instruments

There is no material differences between the fair value and the carrying amount of financial instruments presented in the financial statements at August 31, 2015 and 2014.

8. Pension Plan

The Ensemble does not offer a pension plan to its employees and therefore has no present, past or future pension expense obligations.

**THE ENSEMBLE THEATRE
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015**

9. Grants

Grants were received or pledged from the following municipalities and organizations during 2015:

Houston Arts Alliance	\$ 96,002
Houston Endowment	\$ 90,000

10. Note Payable

In June 2013, The Ensemble Theatre 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.

As of August 31, 2015 and 2014 The Ensemble Theatre has \$80,249 and \$362,995 respectively of debt outstanding with \$45,546 and \$33,588 respectively of the balance of the loans reflected in current liabilities in the statement of financial position. The loan is secured by the building and land of the Ensemble Theatre.

11. Commitments

The Ensemble Theatre leases office equipment under a non-cancelable operating lease. The lease agreement requires the Ensemble Theatre to pay taxes and fees associated with the equipment. The lease expires December 2015. Total lease expense for the year ended August 31, 2015, and 2014, was \$15,414, and \$15,729, respectively.

Future minimum lease payments under operating lease are as follows:

August 31, 2015	\$7,740
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12. Income Taxes

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.

13. Related Party Transactions

The Ensemble Theatre received event management services from a vendor that is owned and operated by a member of the board of directors. The Ensemble Theatre paid \$38,606 for these services during the period covered by the audit. 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.

**THE ENSEMBLE THEATRE
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015**

14. Evaluation of Subsequent Events

The Ensemble Theatre has evaluated events through April 22, 2016, the date which the financial statements were available to be issued.

**THE ENSEMBLE THEATRE
AUDITOR'S STATEMENT
AUGUST 31, 2015**

Federal Employer Id #

02 - 0692321

License #

52613

Licensing Jurisdiction

**Texas State Board of
Public Accountancy**

Lead Auditor

Earl E. Allen, Jr.