



## Theatre Under The Stars

### Consolidated Financial Statements For the Year Ended August 31, 2014

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



# Theatre Under The Stars

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Consolidated Financial Statements  
For the Year Ended August 31, 2014

# Theatre Under The Stars

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Tel: 713-659-6551  
Fax: 713-659-3238  
www.bdo.com

333 Clay St., Suite 4700  
Houston, TX 77002

## Independent Auditor's Report

The Board of Directors of  
Theatre Under The Stars  
Houston, Texas

We have audited the accompanying consolidated financial statements of Theater Under The Stars, a Texas nonprofit corporation (the "Theatre"), which comprise the consolidated statement of financial position as of August 31, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements. The prior year summarized comparative information has been derived from the Theatre's 2013 financial statements and, in our report dated March 3, 2014, we expressed an unqualified opinion on those financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Theatre Under The Stars as of August 31, 2014, 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.

*BDO USA, LLP*

February 23, 2015

## Consolidated Financial Statements

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	2014		
	Theatre Operations		
<i>August 31,</i>	Unrestricted Fund	Temporarily Restricted Contributions	Frank M. Young Scholarship Fund (Note 1)
<b>Assets</b>			
<b>Current:</b>			
Cash and cash equivalents	\$ 4,142,448	\$ —	\$ —
Short-term investments (Note 2)	5,669,947	1,497,056	31,454
Pledges and other receivables	190,427	559,343	23,561
Prepaid expenses	1,251,169	—	—
Inventory	109,451	—	—
<b>Total current assets</b>	<b>11,363,442</b>	<b>2,056,399</b>	<b>55,015</b>
<b>Investments in production companies, net (Note 3)</b>	<b>221,949</b>	<b>—</b>	<b>—</b>
<b>Property and equipment:</b>			
Furniture and fixtures	958,201	—	—
Production equipment	731,705	—	—
Leasehold improvements	125,153	—	—
	1,815,059	—	—
<b>Less: Accumulated depreciation and amortization</b>	<b>(1,508,940)</b>	<b>—</b>	<b>—</b>
<b>Net property and equipment</b>	<b>306,119</b>	<b>—</b>	<b>—</b>
<b>Deferred compensation (Note 6)</b>	<b>193,712</b>	<b>—</b>	<b>—</b>
	<b>\$ 12,085,222</b>	<b>\$ 2,056,399</b>	<b>\$ 55,015</b>

# Theatre Under The Stars

## Consolidated Statement of Financial Position As of August 31, 2014

*(With Summarized Financial Information as of August 31, 2013)*

2014								
Theatre Operations								
Raise the Curtain Fund (Note 1)	Working Capital Reserve Fund (Note 1)	Unrestricted Production Theatre Investments	Unrestricted The River Performing and Visual Arts Center	Eliminations	2014 Total Funds	2013 Total Funds		
\$1,216,113	\$ —	\$ 3,286	\$ 331,275	\$ —	\$ 5,693,122	\$ 3,253,676		
—	1,200,452	—	—	—	8,398,909	7,980,361		
10,000	—	—	1,688	(42,436)	742,583	524,776		
—	—	—	—	—	1,251,169	989,943		
—	—	—	—	—	109,451	113,593		
<u>1,226,113</u>	<u>1,200,452</u>	<u>3,286</u>	<u>332,963</u>	<u>(42,436)</u>	<u>16,195,234</u>	<u>12,862,349</u>		
—	—	—	—	—	221,949	157,357		
—	—	—	—	—	958,201	956,475		
—	—	—	—	—	731,705	593,116		
—	—	—	—	—	125,153	121,075		
—	—	—	—	—	1,815,059	1,670,666		
—	—	—	—	—	(1,508,940)	(1,350,790)		
—	—	—	—	—	306,119	319,876		
—	—	—	—	—	193,712	150,375		
<u>\$1,226,113</u>	<u>\$1,200,452</u>	<u>\$ 3,286</u>	<u>\$ 332,963</u>	<u>\$ (42,436)</u>	<u>\$ 16,917,014</u>	<u>\$ 13,489,957</u>		

*See accompanying summary of significant accounting policies  
and notes to consolidated financial statements.*



	2014		
	Theatre Operations		
<i>August 31,</i>	Unrestricted Fund	Temporarily Restricted Contributions	Frank M. Young Scholarship Fund (Note 1)
<b>Liabilities and Net Assets</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	\$ 1,717,659	\$ —	\$ —
Deferred revenue	6,111,454	—	—
<b>Total current liabilities</b>	<b>7,829,113</b>	<b>—</b>	<b>—</b>
Deferred compensation (Note 6)	193,712	—	—
Negative goodwill (Note 4)	—	—	—
<b>Total liabilities</b>	<b>8,022,825</b>	<b>—</b>	<b>—</b>
<b>Commitments and Contingency (Note 5)</b>			
<b>Net Assets:</b>			
Unrestricted	4,062,397	—	—
Unrestricted — board designated	—	—	55,015
Temporarily restricted	—	2,056,399	—
<b>Total net assets</b>	<b>4,062,397</b>	<b>2,056,399</b>	<b>55,015</b>
	\$ 12,085,222	\$ 2,056,399	\$ 55,015

# Theatre Under The Stars

## Consolidated Statement of Financial Position As of August 31, 2014

*(With Summarized Financial Information as of August 31, 2013)*

		2014						
		Theatre Operations						
Raise the Curtain Fund (Note 1)	Working Capital Reserve Fund (Note 1)	Unrestricted Production Theatre Investments	Unrestricted The River Performing and Visual Arts Center	Eliminations	2014 Total Funds	2013 Total Funds		
\$ —	\$ —	\$ 720	\$ —	\$ (42,436)	\$ 1,675,943	\$ 887,229		
—	—	—	—	—	6,111,454	5,249,601		
—	—	720	—	(42,436)	7,787,397	6,136,830		
—	—	—	—	—	193,712	150,375		
—	—	—	220,133	—	220,133	243,354		
—	—	720	220,133	(42,436)	8,201,242	6,530,559		
—	—	—	112,830	—	4,175,227	3,120,454		
1,226,113	1,200,452	2,566	—	—	2,484,146	2,355,971		
—	—	—	—	—	2,056,399	1,482,973		
1,226,113	1,200,452	2,566	112,830	—	8,715,772	6,959,398		
\$1,226,113	\$1,200,452	\$ 3,286	\$ 332,963	\$ (42,436)	\$ 16,917,014	\$13,489,957		

*See accompanying summary of significant accounting policies  
and notes to consolidated financial statements.*

	2014		
	Theatre Operations		
<i>For the Years Ended August 31,</i>	Unrestricted Fund	Temporarily Restricted Contributions	Frank M. Young Scholarship Fund (Note 1)
<b>Operating Revenues:</b>			
Admissions	\$ 13,542,410	\$ —	\$ —
Warehouse rental income	12,000	—	—
Royalty income	16,597	—	—
Other income	1,343,812	—	4
Tuition, School of Musical Theatre	800,611	—	—
<b>Total Operating Revenues</b>	<b>15,715,430</b>	<b>—</b>	<b>4</b>
<b>Operating Expenses:</b>			
Production costs, direct and indirect	9,875,480	—	—
General and administrative expenses	3,021,310	—	—
Sales and promotions expenses	3,315,657	—	—
Warehouse rental expenses	207,777	—	—
Other expenses	494,093	—	44,618
School of Musical Theatre	1,279,165	—	—
Gain on short-term investment, net	—	—	—
<b>Total Operating Expenses</b>	<b>18,193,482</b>	<b>—</b>	<b>44,618</b>
<b>Excess (Deficiency) from Operations</b>	<b>(2,478,052)</b>	<b>—</b>	<b>(44,614)</b>
<b>Contributions:</b>			
Corporate	414,887	444,888	—
Individuals	388,846	1,151,011	48,530
Government	792,197	—	—
Events	863,962	—	—
Foundations	779,391	460,500	—
Other	113,034	—	—
<b>Total Contributions</b>	<b>3,352,317</b>	<b>2,056,399</b>	<b>48,530</b>
<b>Less: Fund-raising costs</b>	<b>(1,335,013)</b>	<b>—</b>	<b>—</b>
<b>Net Contributions</b>	<b>2,017,304</b>	<b>2,056,399</b>	<b>48,530</b>
<b>Contributions Released from Restrictions</b>	<b>1,482,973</b>	<b>(1,482,973)</b>	<b>—</b>
	<b>3,500,277</b>	<b>573,426</b>	<b>48,530</b>
<b>Excess (Deficiency) of Revenues and Contributions over Expenses</b>	<b>1,022,225</b>	<b>573,426</b>	<b>3,916</b>
<b>Net Assets, at beginning of year</b>	<b>3,040,172</b>	<b>1,482,973</b>	<b>51,099</b>
<b>Net Assets, at end of year</b>	<b>\$ 4,062,397</b>	<b>\$ 2,056,399</b>	<b>\$ 55,015</b>

# Theatre Under The Stars

## Consolidated Statement of Activities For the Year Ended August 31, 2014

*(With Summarized Financial Information for the Year Ended August 31, 2013)*

		2014							
		Theatre Operations							
Raise the Curtain Fund (Note 1)	Working Capital Reserve Fund (Note 1)	Unrestricted Production Theatre Investments	Unrestricted The River Performing and Visual Arts Center	Eliminations	2014 Total Funds	2013 Total Funds			
\$	—	\$	—	\$	—	\$	13,542,410	\$	9,297,346
							12,000		15,707
							16,597		36,273
			2,102		24,798	(2,102)	1,368,614		781,820
					7,750		808,361		798,753
			2,102		32,548	(2,102)	15,747,982		10,929,899
							9,875,480		7,061,021
			2,102			(2,102)	3,021,310		2,404,314
							3,315,657		2,787,671
							207,777		192,854
13,583							552,294		489,386
							1,279,165		1,227,796
	(137,842)						(137,842)		(65,959)
13,583	(137,842)	2,102				(2,102)	18,113,841		14,097,083
(13,583)	137,842				32,548		(2,365,859)		(3,167,184)
							859,775		653,970
							1,588,387		1,315,031
							792,197		662,008
							863,962		927,426
							1,239,891		425,749
							113,034		106,559
							5,457,246		4,090,743
							(1,335,013)		(1,146,188)
							4,122,233		2,944,555
							—		—
							4,122,233		2,944,555
(13,583)	137,842				32,548		1,756,374		(222,629)
1,239,696	1,062,610	2,566			80,282		6,959,398		7,182,027
\$1,226,113	\$1,200,452	\$ 2,566			\$ 112,830		\$ —		\$ 6,959,398

*See accompanying summary of significant accounting policies and notes to consolidated financial statements.*

# Theatre Under The Stars

## Consolidated Statements of Cash Flows For the Year Ended August 31, 2014 and 2013

<i>Years ended August 31,</i>	<b>2014</b>	<b>2013</b>
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<b>Cash Flows From Operating Activities:</b>		
Excess (deficiency) of revenues and contributions over expenses	\$ 1,756,374	\$ (222,629)
Adjustments to reconcile excess (deficiency) of revenues and contributions over expenses to net cash provided by operating activities:		
Depreciation and amortization	156,425	121,761
Loss on disposal of property and equipment	—	7,078
Realized and unrealized gain on short-term investments, net	(137,842)	(65,959)
Write-down of investments in production companies	—	50,000
Amortization of negative goodwill	(23,221)	(23,219)
Changes in assets and liabilities:		
Pledges and other receivables	(217,807)	491,364
Prepaid expenses	(261,226)	(261,942)
Inventory	4,142	(19,794)
Accounts payable and accrued expenses	788,714	106,977
Deferred revenue	861,853	153,024
Net cash provided by operating activities	2,927,412	336,661
<b>Cash Flows From Investing Activities:</b>		
Short-term investments, net	(280,706)	468,628
Investments, production companies	(174,677)	(75,000)
Return of capital, production companies	110,085	30,143
Capital expenditures	(142,668)	(191,396)
Net cash provided by (used in) investment activities	(487,966)	232,375
Net increase in cash and cash equivalents	2,439,446	569,036
Cash and cash equivalents at beginning of year	3,253,676	2,684,640
Cash and cash equivalents at end of year	\$ 5,693,122	\$ 3,253,676

*See accompanying summary of significant accounting policies and notes to consolidated financial statements.*

# Theatre Under The Stars

## Summary of Significant Accounting Policies

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### *Organization and Funding*

Theatre Under The Stars was organized as a Texas nonprofit corporation on August 15, 1968, and is committed to the enrichment of cultural life through the production of quality musical theatre, the development of future artists and the creation of new works for the musical theatre repertoire. Theatre Under The Stars is a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. Theatre Under The Stars presents a series of indoor and outdoor musical productions and operates the Humphreys School of Musical Theatre. While Theatre Under The Stars generates revenue from general ticket sales and other sources, it relies on contributions to fund a significant portion of its expenditures.

TUTS Productions and Matagoger Productions were formed as wholly-owned subsidiaries of Theatre Under The Stars on February 24, 1995 and December 6, 1995, respectively. Both companies were organized as tax-exempt Texas corporations under Section 501(c)(3) of the Internal Revenue Code, and are engaged in investments in various production companies on behalf of Theatre Under The Stars (see Note 3).

On April 1, 2010, Theatre Under The Stars became the sole member of The River Performing and Visual Arts Center and began directing its operations. The River Performing and Visual Arts Center organized as tax-exempt Texas Corporations under Section 501(c)(3) of the Internal Revenue Code, and is committed to provide an accessible, affordable fine arts education for children who have disabilities, chronic illnesses or economic disadvantages (see Note 4).

### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of Theatre Under The Stars and its wholly-owned subsidiaries, TUTS Productions, Matagoger Productions, and The River Performing and Visual Arts Center. All significant intercompany balances and transactions have been eliminated.

### *Basis of Presentation*

Theatre Under The Stars has adopted Financial Accounting Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*, which requires that all not-for-profit organizations classify the organization's net assets and its revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. The Statement requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted and unrestricted - be reflected in the statement of financial position and the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Theatre's financial statements for the year ended August 31, 2013 from which the summarized information was derived.

# Theatre Under The Stars

## Summary of Significant Accounting Policies

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### *Contributions*

FASB ASC 958-605, *Revenue Recognition for Not-for-Profit Entities*, establishes standards for contributions whereby those received, including unconditional promises to give, are recognized as revenues in the period received at their fair values. Conditional promises to give are recognized when they become unconditional, that is, when the conditions are substantially met. Donor-restricted support is recorded as either temporarily or permanently restricted contributions, depending on the nature of the restriction. When a restriction expires, temporarily restricted contributions and net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. During fiscal year 2014, \$1,482,973 was released from donor restrictions. At August 31, 2014, donor restricted investment consisted of \$1,151,011 in individual gifts, \$444,888 in corporate gifts, and \$460,500 in foundation gifts.

### *Short-term Investments*

FASB ASC 958-320, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, establishes standards for accounting for certain investments held by not-for-profit organizations. The Statement requires that investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value with gains and losses included in the statement of activities. FASB ASC 958-320 also requires certain disclosures about such investments.

Short-term investments are stated at fair value. Realized and unrealized gains and losses are recognized on the statement of activities. Realized gains and losses are determined on a trade-date basis.

FASB ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. FASB ASC 820 defines 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. Additionally, FASB ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of inputs used are as follows:

**Level 1** - Observable inputs such as quoted prices in active markets for identical assets or liabilities.

**Level 2** - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

**Level 3** - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

# Theatre Under The Stars

## Summary of Significant Accounting Policies

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### *Allowance for Doubtful Accounts*

Theatre Under The Stars records an allowance for doubtful accounts, including pledges receivable, based on specifically identified amounts that it believes to be uncollectible. Theatre Under The Stars has a limited number of donors and customers with individually large amounts due at any given balance sheet date. Any unanticipated change in one of those party's credit worthiness or other matters affecting the collectability of amounts due from such party, could have a material effect on its results of operations in the period in which such changes or events occur. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Historically, losses due to uncollectible accounts have not been significant. As of August 31, 2014 and 2013, no allowance for doubtful accounts has been recorded.

### *Prepaid Expenses*

Prepaid expenses include prepaid costs incurred in advance of the related production. Such amounts are charged to direct and indirect production costs in the statement of activities when the production occurs.

### *Inventory*

Inventory, which consists of books and show memorabilia, are valued at the lower of cost or market using the specific identification method.

### *Investments in Production Companies*

Theatre Under The Stars, either directly or through its wholly-owned subsidiaries, invests in various limited liability companies and partnerships engaged in the production of Broadway and touring musical shows. Theatre Under The Stars' percentage of participation varies from less than 1% to 5%. These investments are accounted for under the cost method as Theatre Under The Stars does not exercise significant influence over any of the companies' operating and financial activities.

### *Property and Equipment*

Property and equipment is carried at cost and depreciation is provided on the straight-line basis over the estimated useful life of the related asset. Maintenance and repair costs are expensed as incurred. Any gains or losses on the disposal of property and equipment are reflected in the consolidated statements of activities when the disposal occurs. The estimated useful lives of the various assets are as follows:

	Estimated Lives (Years)
Production equipment	5 - 15
Furniture and fixtures	3 - 10
Leasehold improvements	3 - 5

Theatre Under The Stars considers any potential impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of the assets may not be fully recoverable. Accordingly, management has determined that there is no impairment of its long-lived assets at August 31, 2014 and 2013.



# Theatre Under The Stars

## Summary of Significant Accounting Policies

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### *Deferred Revenue*

Revenue received from season and single ticket sales in advance of the related production is recorded as deferred revenue. When the production occurs, the deferred revenue is recognized as earned revenue.

### *Donated Materials and Services*

Each year, Theatre Under The Stars receives a substantial amount of donated materials and services. To the extent the fair value of donated assets can be estimated, they are recorded as contributions in the period received. Contributions of services are recorded as contributions in the period they are performed if the services (1) create or enhance non-financial assets or (2) require specialized services.

### *Advertising Costs*

Direct response advertising includes advertisements for specific productions which allow Theatre Under The Stars to generate related sales. All direct costs associated with the direct response advertisements are accumulated as prepaid expenses. These costs are then amortized to sales and promotions expenses when the productions occur. Total promotion expenses, which includes direct response advertising expense, was approximately \$740,000 and \$863,000 for the year ended August 31, 2014 and 2013, respectively. As of August 31, 2014 and 2013, Theatre Under The Stars had capitalized direct response advertising costs of approximately \$519,000 and \$570,000, respectively.

### *Allocation of Functional Expenses*

The costs of providing the various activities have been summarized on a functional basis in the consolidated statements of activities. Specifically identifiable activity costs are shown as operating expenses relating to that activity and costs that relate to more than one activity are allocated among the various activities.

### *Income Taxes*

Theatre Under The Stars follows the provisions of FASB ASC 740, *Accounting for Uncertainty in Income Taxes*. Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. Theatre Under The Stars does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits.

Theatre Under The Stars has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, Theatre Under The Stars has filed Internal Revenue Service Form 990, as required, and all other applicable returns in jurisdictions where it is required. However, Theatre Under The Stars is still open to examination by taxing authorities for the current year and the prior three years. For the years ended August 30, 2014 and 2013, no interest or penalties were required to be recorded or included in the consolidated statements of activities related to uncertain tax positions.

# Theatre Under The Stars

## Summary of Significant Accounting Policies

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### *Management's Estimates and Assumptions*

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 regarding valuation of assets and recognition of 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 period. The actual results could differ from those estimates.

### *Statements of Cash Flows*

For purposes of the statements of cash flows, cash and cash equivalents include demand deposits and highly liquid investments with original maturities of three months or less, except amounts held in money market accounts for investment purposes which are classified as short-term investments.

### *Concentration of Market Risk*

Theatre Under The Stars maintains its cash deposit accounts, which, at times, may exceed federally insured limits. Theatre Under The Stars has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

### *Reclassifications*

Certain 2013 financial statements amounts were reclassified to conform to the 2014 financial statement presentation.

### *Subsequent Events*

Management of Theatre Under The Stars evaluated subsequent events through February 23, 2015 which is the date the financial statements were available to be issued.

# Theatre Under The Stars

## Notes to Consolidated Financial Statements

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### 1. Unrestricted Board Designated Funds

#### *Frank M. Young Scholarship Fund*

At August 31, 2014 and 2013, the Unrestricted Board Designated Fund includes the net assets and activities of the Frank M. Young Scholarship Fund. In October 1992, the Board of Directors established the Frank M. Young Scholarship Fund. The purpose of this fund is to promote the teaching and study of the art of theatrics and to render financial assistance to youths who desire to develop their talents for the musical stage.

#### *Raise the Curtain Fund*

At August 31, 2014 and 2013, the Unrestricted Board Designated Fund includes the net assets and activities of the Raise the Curtain Fund. In March 2006, the Board of Directors established the fund to reduce the Theatre Under The Stars' deficit and establish an endowment. As of August 31, 2014, the endowment had not been established.

#### *Working Capital Reserve Fund*

At August 31, 2014, the Unrestricted Board Designated Fund includes the net assets and activities of the Working Capital Reserve Fund. In November 2007, the Board of Directors established the fund to provide a working capital reserve.

### 2. Short-Term Investments

Short-term investments consisted of the following at August 31:

	2014		2013	
	Cost	Market	Cost	Market
Money Market Fund	\$ 6,977,002	\$ 6,977,002	\$ 6,816,300	\$ 6,816,300
Equity Securities	647,697	786,207	580,502	659,686
Corporate Bonds	175,966	179,057	175,565	175,310
Government Bonds	107,684	105,200	101,621	97,309
Other	342,821	351,443	230,572	231,756
Total	\$ 8,251,170	\$ 8,398,909	\$ 7,904,560	\$ 7,980,361

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described in summary of significant accounting policies.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

# Theatre Under The Stars

## Notes to Consolidated Financial Statements

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Short-term investments all classified as Level 1 are traded on national exchanges and are valued at the daily closing price from the primary exchange of each security.

The valuation methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Theatre Under The Stars believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

For the year ended August 31, 2014, Theatre Under The Stars had an unrealized gain of \$27,766 and realized gain of \$110,076 on its equity securities, corporate bonds, government bonds and other short-term investments which were recorded in gain on short-term investment, net. Interest income earned on money market fund for the year ended August 31, 2014, was \$125,860, which was recorded in other income.

For the year ended August 31, 2013, Theatre Under The Stars had an unrealized gain of \$14,696 and realized gain of \$51,263 on its equity securities, corporate bonds, government bonds and other short-term investments which were recorded in gain on short-term investment, net. Interest income earned on money market fund for the year ended August 31, 2013, was \$158,603, which was recorded in other income.

### 3. Investments in Production Companies

At August 31, 2014 and 2013, Theatre Under The Stars and its wholly-owned subsidiaries, TUTS Productions and Matagoger Productions, had investments in production companies, primarily for the purpose of securing subsequent production and presentation rights. The various operating agreements generally provide that Theatre Under The Stars, or its subsidiaries, will receive excess cash flows or net profits, as defined, in proportion to their ownership or net profits interests. Such excess cash flows or net profits are generally defined as the excess of revenues over touring show expenses and obligations, the maintenance of specified reserves and the recoupment of each owner's capital contributions.

During the year ended August 31, 2014, Theatre Under The Stars and its subsidiaries invested \$174,677 in production companies and received \$110,085 as a return of capital from these investments.

During the year ended August 31, 2013, Theatre Under The Stars and its subsidiaries invested \$75,000 in production companies and received \$30,143 as a return of capital from these investments. Additionally, during the year ended August 31, 2013, Theatre Under The Stars determined that certain investments in production companies would not be realized and recorded a write-down of \$50,000.

At August 31, 2014 and 2013, Theatre Under The Stars and its subsidiaries had investments in production companies of \$221,949 and \$157,357, respectively.

# Theatre Under The Stars

## Notes to Consolidated Financial Statements

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### 4. The Full Member of The River Performing and Visual Arts Center

On April 1, 2010, Theatre Under The Stars became the sole member of The River Performing and Visual Arts Center and began directing its operations. Subsequent to April 1, 2010, Theatre Under The Stars and The River Performing and Visual Arts Center share the resources and provide Education and Community Outreach programs. This transaction was accounted for in accordance with the purchase method of accounting. Theatre Under The Stars, for no consideration, obtained assets of approximately \$329,000 and assumed liabilities of approximately \$6,000. Accordingly, Theatre Under The Stars also recorded negative goodwill of approximately \$323,000 and will amortize it on straight-line basis over the period estimated to be benefited, which is estimated to be approximately fifteen years. During the years ended August 31, 2014 and 2013, Theatre Under The Stars recognized amortization of negative goodwill of approximately of \$23,000, in other income. At August 31, 2014 and 2013, Theatre Under The Stars had negative goodwill of approximately \$220,000 and \$243,000, respectively.

### 5. Commitments

At August 31, 2014, future minimum lease obligations under non-cancelable operating leases for office and warehouse space were approximately as follows:

	Amount
2015	\$ 313,646
2016	299,847
2017	294,531
2018	291,960
2019	283,120
Thereafter	2,599,581
	<hr/> \$ 4,082,685 <hr/>

Total lease expense for the years ended August 31, 2014 and 2013 was approximately \$347,000 and \$336,000, respectively.

On September 1, 1999, Theatre Under The Stars entered into an agreement relating to the use of the Hobby Center with the Houston Music Hall Foundation (the "Foundation"). The agreement names Theatre Under The Stars the Hobby Center's Principal Resident Company, which gives Theatre Under The Stars preferential booking rights and rental rates over other users and guaranteed show dates, subject to minimum use requirements. The term of the agreement runs concurrent with the Foundation's thirty-year lease of the Hobby Center from the City of Houston, including a thirty-year extension. Failure by Theatre Under The Stars to meet the minimum use requirement, or other default, would result in a loss of Principal Resident Company status and the associated rights and privileges. The minimum use requirements for maintaining Resident Company status will result in theatre space lease obligations of between \$220,000 and \$300,000 per year.

# Theatre Under The Stars

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In June 2005, Theatre Under The Stars entered into an agreement with the Foundation to fund the Foundation's operating deficits, if any, with another resident theatre company equally as defined in the agreement. The funding requirement period began September 1, 2005, and ran through August 31, 2008, at which time, the agreement could have been extended for an additional three years. Effective September 1, 2009, Theatre Under The Stars and the Foundation entered into a ten year amendment, whereby Theatre Under The Stars would provide annual funding to the Foundation, as defined by the agreement, irrespective of the Foundation's operation results. The annual funding would be limited to \$300,000 maximum and a \$150,000 minimum. However, if Theatre Under The Stars has a deficiency of revenue and contributions over expenses of more than \$300,000, as defined by the agreement, Theatre Under The Stars would not be required to fund the Foundation in that year. During the years ended August 31, 2014 and 2013, Theatre Under The Stars accrued \$300,000 and \$150,000, respectively, which is included in accrued expense and other expenses.

In September 2011, Theatre Under The Stars entered into an agreement to receive consulting services from Frank M. Young. The agreement will provide Theatre Under The Stars with consulting services over the term of September 1, 2011 through August 31, 2016. For the services rendered, Theatre Under The Stars will provide monthly payments for consulting fees which total to approximately \$100,000 annually over the term of the agreement.

### 6. Retirement Plans

Effective January 1, 1998, Theatre Under The Stars instituted a qualified retirement plan under the provisions of the Internal Revenue Code Section 403(b). The plan provides for employee deferrals of compensation up to the maximum legal limit. In addition, the plan provides that Theatre Under The Stars may make discretionary contributions to all employees and that the amount of discretionary contributions may be changed from plan year to plan year. Theatre Under The Stars has made matching discretionary contributions up to 5% of employee compensation. Employer contributions vest over a three-year period. For the years ended August 31, 2014 and 2013, Theatre Under The Stars contributed \$109,618 and \$108,303, respectively, to this plan.

Effective August 15, 2005, Theatre Under The Stars instituted a qualified deferred compensation plan under the provisions of Internal Revenue code section 457(b). The plan provides for employee deferrals of compensation up to the maximum legal limit. In addition, the plan provides that Theatre Under The Stars may make discretionary contributions to the plan participants. The contributions for the years ended August 31, 2014 and 2013 were \$17,500 and \$17,333, respectively. At August 31, 2014 and 2013, Theatre Under The Stars had an investment account and corresponding liability totaling \$193,712 and \$150,375, respectively, in accordance with this plan.