

**THEATER MU, INCORPORATED
dba MU PERFORMING ARTS**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2015

THEATER MU, INCORPORATED
dba MU PERFORMING ARTS

FINANCIAL STATEMENTS

For the Year Ended August 31, 2015

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Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Theater Mu, Incorporated
Saint Paul, Minnesota

We have audited the accompanying financial statements of Theater Mu, Incorporated dba Mu Performing Arts (a nonprofit organization), which comprise the statement of financial position as of August 31, 2015, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Theater Mu, Incorporated as of August 31, 2015, 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.

Summarized Comparative Information

The financial statements of Theater Mu, Incorporated as of August 31, 2014, were audited by other auditors whose report dated January 22, 2015, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended August 31, 2014, has been derived from those financial statements.

*Mahoney Ulbrich
Christiansen Russ P.A.*

Saint Paul, Minnesota
January 29, 2016

THEATER MU, INCORPORATED
dba MU PERFORMING ARTS

STATEMENT OF FINANCIAL POSITION

August 31, 2015
(With Comparative Totals for 2014)

	2015	2014
<u>ASSETS</u>		
Current assets:		
Cash	\$ 47,154	\$ 38,644
Accounts receivable	2,000	1,433
Current portion of contributions receivable	156,136	158,694
Prepaid expenses	3,304	4,982
Total current assets	208,594	203,753
Property and equipment, net	31,516	41,466
Contributions receivable, less of current portion	-	45,000
Equity bond	4,548	6,170
Security deposits	3,650	3,650
Total assets	\$ 248,308	\$ 300,039
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 2,604	\$ 4,740
Accrued payroll and related	14,851	14,658
Deferred revenue	3,150	6,300
Current portion of note payable and line of credit	23,664	5,000
Total current liabilities	44,269	30,698
Note payable and line of credit, less current portion	11,336	-
Net assets:		
Unrestricted	(2,718)	23,644
Temporarily restricted	195,421	245,697
Total net assets	192,703	269,341
Total liabilities and net assets	\$ 248,308	\$ 300,039

See accompanying notes to financial statements.

THEATER MU, INCORPORATED
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STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

	2015			2014
	Unrestricted	Temporarily Restricted	Total	
Support and revenues:				
Support:				
Contributions	\$ 127,527	\$ 115,490	\$ 243,017	\$ 280,146
Government grants	55,133	68,292	123,425	165,047
Gala, net of direct donor benefits of \$19,595 in 2015 and \$20,336 in 2014	21,107	-	21,107	604
Net assets released from restrictions	219,617	(219,617)	-	-
Total support	423,384	(35,835)	387,549	445,797
Revenues:				
Ticket sales	77,313	-	77,313	121,162
Outreach	50,233	-	50,233	52,406
Tuition	33,618	-	33,618	31,249
Other sales, net of cost of goods sold of \$3,207 in 2015 and \$991 in 2014	4,705	-	4,705	1,416
Other revenue	2,198	-	2,198	8,654
Total revenues	168,067	-	168,067	214,887
Total support and revenues	591,451	(35,835)	555,616	660,684
Expenses:				
Program services	448,728	-	448,728	500,169
Management and general	64,450	-	64,450	138,398
Fundraising	104,635	-	104,635	38,394
Total expenses	617,813	-	617,813	676,961
Change in net assets from operations	(26,362)	(35,835)	(62,197)	(16,277)
Other changes in net assets:				
Loss on return of unused funds	-	(14,441)	(14,441)	-
	-	(14,441)	(14,441)	-
Increase (decrease) in net assets	(26,362)	(50,276)	(76,638)	(16,277)
Net assets, beginning of year	23,644	245,697	269,341	285,618
Net assets, end of year	\$ (2,718)	\$ 195,421	\$ 192,703	\$ 269,341

See accompanying notes to financial statements.

THEATER MU, INCORPORATED
dba MU PERFORMING ARTS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

	2015			Total	2014
	Program	Management and General	Fund- raising		
Salaries	\$ 126,936	\$ 25,557	\$ 68,267	\$ 220,760	\$ 257,199
Payroll taxes	11,537	3,296	8,711	23,544	30,976
Employee benefits	19,476	2,529	4,177	26,182	36,097
	<u>157,949</u>	<u>31,382</u>	<u>81,155</u>	<u>270,486</u>	<u>324,272</u>
Artist contracts	132,120	-	200	132,320	126,077
Production costs	19,546	-	-	19,546	38,955
Rent - theater and rehearsal space	45,239	-	7,186	52,425	42,962
Royalties	8,517	-	-	8,517	11,811
Cost of concessions and merchandise sold	3,207	-	-	3,207	991
Advertising	22,262	107	2,015	24,384	30,492
Consultants	10,335	2,493	11,293	24,121	13,502
Travel	11,492	3,255	183	14,930	12,168
Conferences and meetings	6,042	2,092	-	8,134	6,481
Rent - office	5,671	1,575	630	7,876	34,567
Supplies and office expenses	14,564	7,426	16,396	38,386	32,721
Information technology	305	1,013	4,844	6,162	5,626
Accounting	-	6,208	-	6,208	5,250
Miscellaneous	5,076	1,910	-	6,986	888
Insurance	2,953	820	328	4,101	4,036
Interest	-	947	-	947	-
Depreciation	6,657	5,222	-	11,879	7,490
Total expenses before removal of direct donor benefits and costs of sales	<u>451,935</u>	<u>64,450</u>	<u>124,230</u>	<u>640,615</u>	<u>698,288</u>
Direct donor benefits	-	-	(19,595)	(19,595)	(20,336)
Cost of sales	<u>(3,207)</u>	<u>-</u>	<u>-</u>	<u>(3,207)</u>	<u>(991)</u>
Expenses reported by function	<u>\$ 448,728</u>	<u>\$ 64,450</u>	<u>\$ 104,635</u>	<u>\$ 617,813</u>	<u>\$ 676,961</u>

See accompanying notes to financial statements.

THEATER MU, INCORPORATED
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STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

Increase (decrease) in cash

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (76,638)	\$ (16,277)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	11,879	7,489
Changes in operating assets and liabilities:		
Accounts receivable	(567)	7,884
Contributions receivable	47,558	(46,887)
Prepaid expenses	1,678	13,951
Equity bond	1,622	-
Security deposit	-	(2,500)
Accounts payable	(2,136)	(2,831)
Accrued payroll and related	193	10,000
Deferred revenue	(3,150)	-
Net cash flows from operating activities	(19,561)	(29,171)
Cash flows from investing activities:		
Purchase of property and equipment	(1,929)	(26,459)
Net cash flows from investing activities	(1,929)	(26,459)
Cash flows from financing activities:		
Advance on line of credit	35,000	5,000
Payment made on line of credit	(16,336)	-
Net cash flows from financing activities	18,664	5,000
Net decrease in cash	(2,826)	(50,630)
Cash, beginning of year	38,644	89,274
Cash, end of year	\$ 35,818	\$ 38,644
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 947	\$ -

See accompanying notes to financial statements.

THEATER MU, INCORPORATED
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NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

1. **ORGANIZATION**

Theater Mu, Incorporated dba (Mu Performing Arts) is organized as a Minnesota non-profit corporation to provide Asian American theater productions, artistic development, and outreach performances. Mu Performing Arts is located in Saint Paul, Minnesota, but stages its performances throughout the Twin Cities.

Mu Performing Arts' primary sources of support and revenue include contributions and government grants, and program revenue from tuition, and outreach programs, and performing productions.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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 period. Actual results could differ from those estimates.

Financial Statement Presentation – Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions with restrictions by donors that do not expire and that allow, in certain cases, only the income earned thereon to be expended. Mu Performing Arts currently has no permanently restricted net assets.

Accounts Receivable – Accounts receivable are stated at net realizable value. The accounts receivable balance represent amounts considered collectible at year end; therefore, no allowance for bad debts has been recorded. It is management's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

(Continued)

THEATER MU, INCORPORATED
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NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions Receivable – Contributions receivable are recorded at the present value of estimated future cash flows. Contributions receivable have been recorded at the promised amount because the difference between the promised amount and the net present value of the promise is immaterial. Management believes that all amounts will be received when due, therefore no allowance for uncollectible amounts has been provided. Receivables are written off when, in management’s estimation, it is probable that the receivable is worthless.

Property and Equipment – Property and equipment are carried at cost, with the exception of donated equipment which is recorded at fair market value at date of gift. Additions with a cost of less than \$300 are expensed. Depreciation is computed using the straight-line method over the shorter of the estimated useful life of each asset or the lease term. Maintenance and repairs are expensed as incurred. Major renewals or betterments that extend the lives of leasehold improvements and equipment are capitalized.

Contributions – Contributions are recognized when the donor makes a commitment to give to Mu Performing Arts that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily restricted net assets and transferred to unrestricted net assets when a specific time restriction ends or a purpose is accomplished. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Contributions restricted for property and equipment are released when expenditures for property and equipment are made.

Mu Performing Arts treats grants from the Minnesota State Arts Board (MSAB) and the National Endowment for the Arts (NEA) as contributions.

Contributed Materials – Contributed materials are recorded as contributions when received at their fair value. In 2015 and 2014, Mu Performing Arts did not receive contributed materials.

Contributed Services – Contributed services are recorded as contributions, at their fair value, when the service creates or enhances a non-financial asset or the service requires specialized skills that would need to be purchased if not provided by donation. A substantial number of unpaid volunteers have made significant contributions of their time to Mu Performing Arts’ programs. The value of this contributed time is not reflected in these statements, since it does not meet the criteria described. In 2015 and 2014, Mu Performing Arts did not receive contributed services that meet these criteria.

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THEATER MU, INCORPORATED
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NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition – Ticket sales and fees are recognized when earned. Expenses are matched with the related revenues. Advance ticket sales for future productions are recorded as deferred revenue. Related costs are included in prepaid expenses.

Advertising Costs – Advertising costs are charged to expense during the year in which they are incurred, except the costs that are for future productions.

Functional Expenses – Mu Performing Arts allocates its expenses among its programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated based on management estimates.

Income Taxes – Mu Performing Arts is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to the extent it has taxable income from businesses that are not related to its exempt purpose. Management believes Mu Performing Arts did not have any unrelated business income in 2015 or 2014. Mu Performing Arts believes that it has appropriate support for any tax positions taken, and accordingly, does not have any uncertain tax positions that are material to the financial statements.

Comparative Totals – 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with Mu Performing Arts' financial statements for the year ended August 31, 2014, from which the summarized information was derived.

Reclassifications – Reclassifications were made to the 2014 financial statements to be consistent with the current year financial statements. These reclassifications did not affect net assets or the change in net assets.

3. **EQUITY BOND**

Mu Performing Arts is required to deposit an amount with the Actors Equity Association to pay the union actors if Mu Performing Arts is unable to. As of August 31, 2015 and 2014, the amount deposited was \$4,548 and \$6,170.

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THEATER MU, INCORPORATED
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NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

4. **CONTRIBUTIONS RECEIVABLE**

Contributions receivable are expected to be collected in the year ending August 31, 2016.

5. **CONDITIONAL PROMISE TO GIVE**

Mu Performing Arts has received a conditional promise from a foundation. The foundation will match up to \$70,000 in contributions received for a theatrical production for a two year period ending August 2017. At least 85% of the funds are required to be raised before the foundation will make the contribution. This conditional promise to give is not included in revenue and support since the condition has not been met.

6. **PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	<u>2015</u>	<u>2014</u>	<u>Estimated useful life - years</u>
Office equipment	\$ 18,354	\$ 32,784	5
Theater equipment	38,692	43,784	5 - 10
Leasehold improvements	5,646	7,327	4.5
Accumulated depreciation	<u>(31,176)</u>	<u>(42,429)</u>	
	<u>\$ 31,516</u>	<u>\$ 41,466</u>	

7. **LINE OF CREDIT**

Mu Performing Arts entered into a line of credit agreement with Nonprofits Assistance Fund which allowed borrowing up to \$50,000 with interest at 7.00%. The line matured August 31, 2015, and was secured by all assets of Mu Performing Arts. The line of credit was modified and extended through October 31, 2015.

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THEATER MU, INCORPORATED
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NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31 are for the following purposes:

	<u>2015</u>	<u>2014</u>
General operations – time restricted	\$ 45,000	\$ 182,757
Capacity building	66,664	-
Arts Access programs	27,017	-
Future productions	35,490	15,000
FOB tour	-	26,690
New facility	<u>21,250</u>	<u>21,250</u>
	<u>\$ 195,421</u>	<u>\$ 245,697</u>

During the year ended August 31, 2015, Mu Performing Arts returned \$14,441 in unused project money to the contributor because no additional quantifying expenses were expected.

9. LEASE AGREEMENTS

Mu Performing Arts leases office and rehearsal space under operating leases. The office lease requires monthly payments of \$669 and expires April 1, 2016. The rehearsal space lease requires monthly payments of \$1,800 and expires May 31, 2016.

Rent expense was \$29,476 and \$29,400 for the years ended August 31, 2015 and 2014.

10. CONCENTRATIONS

Mu Performing Arts received 22% of its support and revenue from a governmental agency in 2015. Receivables from the governmental agency and a foundation made up 67% of contributions receivable at August 31, 2015.

Mu Performing Arts received 21% of its support and revenue from a governmental agency and 14% from a foundation in 2014. Receivables from the two entities made up 79% of the contribution receivable as of August 31, 2014.

(Continued)

THEATER MU, INCORPORATED
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NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

11. SUBSEQUENT EVENTS

In October 2015, the \$35,000 line of credit was refinanced by the Nonprofits Assistance Fund into a note payable with interest at 7%. The note requires monthly payments of \$5,000 beginning November 30, 2015, through February 29, 2016, and then monthly payments of \$797 beginning March 31, 2016. The note matures November 30, 2017.

Management has evaluated subsequent events through January 29, 2016, the date on which the financial statements were available for issue, and identified no further significant events or transactions to disclose.