

MARKET HOUSE THEATRE OF PADUCAH, KENTUCKY, INC.

**FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statement of Functional Expenses - Year Ended June 30, 2011	4
Statement of Functional Expenses - Year Ended June 30, 2010	5
Statements of Cash Flows	6
Notes to Financial Statements	7-11

WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 JEFFERSON
PADUCAH, KENTUCKY 42001

J. RICHARD WALKER
ROBERT R. ROBERTSON
C. SUZETTE CRONCH
MICHAEL F. KARNES
MARK A. THOMAS
ROGER G. HARRIS
J. DAVID BAILEY, III

G. LEON WILLIAMS, 1926-2004
H. WILLIAM LENTZ, 1925-2007
JERRY G. SEVERNS

MAILING ADDRESS
POST OFFICE BOX 2500
PADUCAH, KY 42002-2500

TELEPHONE
270-443-3643

FAX
270-444-0652

WEBSITE
www/cpa.com

Independent Auditor's Report

To the Board of Directors
Market House Theatre of
Paducah, Kentucky, Inc.
Paducah, Kentucky

We have audited the accompanying statements of financial position of Market House Theatre of Paducah, Kentucky, Inc. (a not-for-profit organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Market House Theatre of Paducah, Kentucky, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Williams, Williams & Lentz, LLP

November 29, 2011

MARKET HOUSE THEATRE OF PADUCAH, KENTUCKY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30

ASSETS

	2011	2010
Current Assets:		
Cash	\$ 93,788	\$ 91,891
Accounts receivable	2,977	6,032
Prepaid expenses	23,561	11,525
Deposits	1,200	800
	<hr/>	<hr/>
Total current assets	121,526	110,248
	<hr/>	<hr/>
Designated Funds:		
Beneficial interest in assets held by community foundation	17,035	10,390
	<hr/>	<hr/>
Property and Equipment:		
Land and buildings	1,348,690	1,304,607
Equipment	229,129	213,432
	<hr/>	<hr/>
Totals	1,577,819	1,518,039
Less accumulated depreciation	551,863	503,570
	<hr/>	<hr/>
Total property and equipment, net	1,025,956	1,014,469
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$1,164,517</u>	<u>\$1,135,107</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 26,301	\$ 16,020
Deferred revenue	70,083	74,982
Other liabilities	100	447
Current portion of note payable	1,745	-
	<hr/>	<hr/>
Total current liabilities	98,229	91,449
	<hr/>	<hr/>
Long -Term Liabilities:		
Note payable	36,149	-
	<hr/>	<hr/>
Total liabilities	134,378	91,449
	<hr/>	<hr/>
Net Assets:		
Unrestricted	1,030,139	1,043,658
	<hr/>	<hr/>
Total net assets	1,030,139	1,043,658
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,164,517</u>	<u>\$1,135,107</u>

See notes to financial statements.

MARKET HOUSE THEATRE OF PADUCAH, KENTUCKY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30

	<u>2011</u>	<u>2010</u>
Unrestricted Net Assets:		
Operating Revenue:		
Season ticket sales	\$ 81,628	\$ 80,792
Box office sales	144,614	119,321
Program advertising revenue	26,200	22,900
Co-producer fees	24,600	29,670
Contributed assets and services	181,750	188,012
Special event revenue	34,477	32,206
Instruction fees	28,313	30,477
Miscellaneous receipts	1,835	2,897
Rental income	24,471	25,658
Total operating revenue	<u>547,888</u>	<u>531,933</u>
Operating Expenses:		
Program costs	426,349	400,803
Supporting services -		
General and administrative	158,553	147,252
Fundraising	53,185	51,475
Total operating expenses	<u>638,087</u>	<u>599,530</u>
Loss from operations	<u>(90,199)</u>	<u>(67,597)</u>
Contributed Support:		
Grants received	44,004	50,575
Donations	80,294	66,221
Net assets released from restrictions -		
Restrictions satisfied by payments	-	52,801
Total contributed support	<u>124,298</u>	<u>169,597</u>
Gain from operations and contributed support	<u>34,099</u>	<u>102,000</u>
Nonoperating Revenues:		
Interest income	127	109
Realized and unrealized gains on beneficial interest in assets held by community foundation	548	569
Loss on disposal of property and equipment	-	(846)
Total nonoperating revenues	<u>675</u>	<u>(168)</u>
Nonoperating Expenses:		
Depreciation	48,293	42,432
Total nonoperating expenses	<u>48,293</u>	<u>42,432</u>
Loss from nonoperating activities	<u>(47,618)</u>	<u>(42,600)</u>
(Decrease) increase in unrestricted net assets	<u>(13,519)</u>	<u>59,400</u>
Temporarily Restricted Net Assets:		
Donations	-	12,430
Grants received	-	18,860
Net assets released from restrictions -		
Restrictions satisfied by payments	-	(52,801)
Decrease in temporarily restricted net assets	<u>-</u>	<u>(21,511)</u>
(Decrease) increase in net assets	(13,519)	37,889
Net assets, beginning of year	<u>1,043,658</u>	<u>1,005,769</u>
NET ASSETS, END OF YEAR	<u><u>\$1,030,139</u></u>	<u><u>\$1,043,658</u></u>

See notes to financial statements.

MARKET HOUSE THEATRE OF PADUCAH, KENTUCKY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011

	Program Costs	General and Administrative	Fundraising	Total
Salaries and employee benefits	\$ 83,583	\$ 87,982	\$48,390	\$219,955
Rent	180,000	-	-	180,000
Utilities	22,391	5,971	1,493	29,855
Production costs	48,560	-	-	48,560
Artist fees	8,223	-	-	8,223
Printing	19,104	-	-	19,104
Postage	5,160	1,376	344	6,880
Equipment rent and maintenance	15,563	12,034	-	27,597
Miscellaneous	4,729	7,445	1,610	13,784
Travel and entertainment	3,211	-	-	3,211
Classes	276	-	-	276
Advertising	35,240	-	1,050	36,290
Insurance	-	17,718	-	17,718
Interest expense	309	1,237	-	1,546
Office supplies and expense	-	3,621	-	3,621
Professional fees	-	18,331	-	18,331
Volunteer appreciation	-	2,838	-	2,838
Food and beverage expense	-	-	298	298
TOTAL OPERATING EXPENSES	<u>\$426,349</u>	<u>\$158,553</u>	<u>\$53,185</u>	<u>\$638,087</u>

See notes to financial statements.

MARKET HOUSE THEATRE OF PADUCAH, KENTUCKY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010

	Program Costs	General and Administrative	Fundraising	Total
Salaries and employee benefits	\$ 81,379	\$ 85,662	\$47,114	\$214,155
Rent	185,012	-	-	185,012
Utilities	21,153	5,641	1,410	28,204
Production costs	36,343	-	-	36,343
Artist fees	7,595	-	-	7,595
Bad debt expense	725	-	-	725
Printing	16,390	-	-	16,390
Postage	7,956	2,122	530	10,608
Equipment rent and maintenance	6,476	14,238	-	20,714
Miscellaneous	5,551	6,845	1,842	14,238
Travel and entertainment	2,722	-	-	2,722
Classes	657	-	-	657
Advertising	28,844	-	165	29,009
Insurance	-	18,031	-	18,031
Interest expense	-	86	21	107
Office supplies and expense	-	5,048	-	5,048
Professional fees	-	8,100	-	8,100
Volunteer appreciation	-	1,479	-	1,479
Food and beverage expense	-	-	393	393
TOTAL OPERATING EXPENSES	\$400,803	\$147,252	\$51,475	\$599,530

See notes to financial statements.

MARKET HOUSE THEATRE OF PADUCAH, KENTUCKY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30

	<u>2011</u>	<u>2010</u>
Cash Flows from Operations:		
(Decrease) increase in net assets	\$ (13,519)	\$ 37,889
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operations:		
Depreciation	48,293	42,432
Realized and unrealized gains on beneficial interest in assets held by community foundation	(548)	(569)
Loss on disposal of property and equipment	-	846
Restricted donations released for acquisition of property and equipment	-	21,511
(Increase) decrease in:		
Accounts receivable	3,055	(4,112)
Prepaid expenses	(12,036)	1,393
Deposits	(400)	(409)
Increase (decrease) in:		
Accounts payable	10,281	4,117
Deferred revenue	(4,899)	(3,748)
Other liabilities	(347)	(550)
	<u>29,880</u>	<u>98,800</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(15,697)	(68,768)
(Increase) decrease in beneficial interest in assets held by community foundation	(6,097)	11,929
	<u>(21,794)</u>	<u>(56,839)</u>
Net cash used by investing activities		
Cash Flows from Financing Activities:		
Principal payments on note payable	(6,189)	-
	<u>(6,189)</u>	<u>-</u>
Net cash used by financing activities		
Increase in cash	1,897	41,961
Cash at the beginning of year	91,891	49,930
CASH AT THE END OF YEAR	<u>\$ 93,788</u>	<u>\$ 91,891</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 1,546</u>	<u>\$ 107</u>

See notes to financial statements.

MARKET HOUSE THEATRE OF PADUCAH, KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of Activities and Significant Accounting Policies:

Organization and Nature of Activities

Market House Theatre of Paducah, Kentucky, Inc. was incorporated as a domestic non-stock corporation under the laws of the Commonwealth of Kentucky on June 1, 1964. The articles of incorporation were amended on May 2, 1980, to recognize the Organization's tax exempt status. Market House Theatre is governed by a Board of Directors consisting of five officers, President, Vice-President, Secretary, Treasurer, Past President, and other members elected at large by the Market House Theatre membership.

Market House Theatre is organized for the purpose of providing, promoting, and activating interest in all branches of theatre art. Market House Theatre is dedicated to presenting a wide range of theatrical productions and activities to meet the varied needs and tastes of both its amateur participants and audience members.

Basis of Accounting

Market House Theatre maintains its records on the accrual basis of accounting.

Accounts Receivable

Accounts receivable are stated as unpaid balances. Management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been recorded. If amounts become uncollectible, they will be written off when that determination is made.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are recorded at cost, net of accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful life of the depreciable property.

Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Deferred Revenue

Income from program and performance revenues are deferred and recognized in the reporting period in which the event occurs.

Contributed Services

Support arising from contributed services that meet the requirements for recognition has been recognized in the accompanying financial statements. These services have been valued at the fair market value of the services rendered.

MARKET HOUSE THEATRE OF PADUCAH, KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of Activities and Significant Accounting Policies:

Restricted and Unrestricted Revenue

Donations received are recorded as increases in unrestricted or temporarily restricted net assets, depending on the existence and/or nature of any donor restrictions.

Functional Allocation of Expenses

The costs of providing the Organization's programs and the administration of the Organization have been summarized on a functional basis in the Statements of Activities and detailed in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 the reported amounts of assets and liabilities and disclosures or 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.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Organization maintains its cash balances in one financial institution located in Paducah, Kentucky. The balances are insured up to Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2011 and 2010, the Organization's cash balances were all covered by FDIC insurance. The Organization has experienced no losses from these deposits.

Income Taxes

The Organization is an exempt organization for federal and state income tax purposes under Internal Revenue Service Code Section 501(c)(3); and, accordingly, no provision has been made for income tax expense in the accompanying financial statements. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). Management believes that it has appropriate support for any tax positions taken, and, as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's federal Exempt Organization Business Income Tax Returns (Form 990) for years ended 2010, 2009, and 2008 are subject to examination by the IRS, generally for three years after they were filed.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Subsequent Events

Management has evaluated subsequent events through November 29, 2011, which is the date the financial statements were available to be issued.

MARKET HOUSE THEATRE OF PADUCAH, KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2 - Beneficial Interest in Assets Held by Community Foundation:

In December 1998, the Organization transferred \$8,836 to the Community Foundation of West Kentucky, Inc. (the Foundation) as an agency endowment fund and named itself as the beneficiary of the fund. The transfer is reported on the statement of financial position as an asset – beneficial interest in assets held by community foundation. Per the agreement, income earned less administrative fees is to be distributed no more frequently than quarterly and no less frequently than annually. The Board of Directors of the Foundation has the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served. The Organization, however, can petition the Foundation for distributions or return of the fund balance; and, consent will not be unreasonably withheld.

Additionally, during the years ended June 30, 2011 and 2010, the Organization was allocated \$5,072 and \$0, respectively, by the Foundation as part of a permanent endowment fund, which is under the Foundation’s sole control. The allocation was made as matching funds related to the Organization’s participation in the Foundation’s Fund Run event. The net earnings from the Organization’s portion of the endowment, as well as, six percent of the permanent endowment net earnings are available for its use; however, the remainder of the permanent endowment is not available and is not reflected on the books of the Organization.

Note 3 - Deferred Revenue:

Deferred revenue consisted of the following at June 30:

	2011	2010
Prepaid season tickets	\$63,383	\$69,980
Prepaid sponsorships and other	6,700	5,002
TOTAL DEFERRED REVENUE	\$70,083	\$74,982

Note 4 - Line of Credit:

The Organization has a \$25,000 unsecured line of credit agreement with The Paducah Bank and Trust Company. No amounts were borrowed on this line of credit at June 30, 2011 and 2010. The line bears interest at 0.5% above the New York Prime Rate, with a floor rate of 5%, and matures November 1, 2011. The Organization expects to extend the line for an additional year under similar terms and conditions.

Note 5 - Note Payable:

The Organization has a note payable with The Paducah Bank and Trust Company in the amount of \$37,894 as of June 30, 2011. It is secured by specific real property and bears interest at 6% for the first 60 months, with a floating rate thereafter equal to the New York Prime Rate plus 1%. Principal and interest payments are due monthly. The note matures October 8, 2025. The future scheduled maturities of the note are as follows:

<u>Fiscal Year Ended</u>		
2012	\$	1,745
2013		1,853
2014		1,967
2015		2,089
2016		2,266
Thereafter		27,974
		\$37,894

(Continued)

MARKET HOUSE THEATRE OF PADUCAH, KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS

Note 6 - Operating Leases:

The Organization was part of an agreement whereby the Organization exchanged box office tickets for storage space which was terminated August 31, 2010. The fair market value of the storage space was recorded as rent expense; and, the fair market value of the tickets exchanged was recorded as box office sales. The fair market value of the storage space in excess of the tickets traded was recorded as contributed assets. The face value of tickets exchanged for fiscal year 2011 and 2010 was \$0 and \$988, respectively; and, the fair market value of storage space provided for fiscal year 2011 and 2010, was \$0 and \$6,000, respectively.

The Organization also leases its operating facilities for one dollar annually expiring April 1, 2015. The fair market value of the premises occupied in excess of one dollar is recorded as both rent expense and contributed assets. The fair market value of the premises provided was \$180,001 in both fiscal years 2011 and 2010.

Note 7 - Contributed Assets and Services:

The Organization records various types of donated assets and services. Volunteer services are recognized in the statements of activities if the service provided (a) creates or enhances long-lived assets or (b) requires specialized skills, provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated assets and services that meet recognition criteria are included in the statements of activity and are categorized as follows:

	2011	2010
Advertising	\$ 1,750	\$ 3,000
Rent	180,000	185,012
TOTAL DONATED ASSETS AND SERVICES	\$181,750	\$188,012

The Organization also benefited from approximately 15,100 and 15,300 volunteer hours for the years ended June 30, 2011 and 2010, respectively, which did not meet the recognition criteria. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Note 8 - Advertising:

The Organization uses advertising to promote its programs and fundraising events among the audiences it serves. The advertising is expensed as incurred. For the years ended June 30, 2011 and 2010, advertising costs totaled \$36,290 and \$29,009, respectively.

Note 9 - Retirement Plan:

The Organization maintains a Simple Individual Retirement Account Plan covering all employees meeting certain eligibility requirements. The Organization matches the employees' contributions to the plan up to 3% of the individual employee's compensation. Total expenses for the years ended June 30, 2011 and 2010, were \$4,051 and \$3,233, respectively.

(Continued)

MARKET HOUSE THEATRE OF PADUCAH, KENTUCKY, INC.
NOTES TO FINANCIAL STATEMENTS

Note 10 - Supplemental Cash Flow Information:

Supplemental information for the statements of cash flows includes:

Non-cash financing activities

	<u>2011</u>	<u>2010</u>
Property and equipment acquired in exchange for notes payable	\$ 44,083	\$ -