

HITS Theatre

Financial Statements
and Independent Auditors' Report
for the years ended September 30, 2013 and 2012

Independent Auditors' Report

To the Board of Directors of
HITS Theatre:

We have audited the accompanying financial statements of HITS Theatre, which comprise the statements of financial position as of September 30, 2013 and 2012 and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

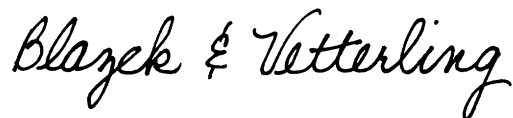
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility – 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 our audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HITS Theatre as of September 30, 2013 and 2012 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.



February 26, 2014

HITS Theatre

Statements of Financial Position as of September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash	\$ 517,605	\$ 394,743
Pledges receivable	2,090	84,162
Prepaid expenses and other assets	37,305	40,453
Property, net (<i>Note 2</i>)	<u>201,056</u>	<u>162,660</u>
 TOTAL ASSETS	 <u>\$ 758,056</u>	 <u>\$ 682,018</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 16,548	\$ 29,687
Deferred revenue:		
Tuition	103,525	85,220
Special events	74,345	64,103
Notes payable (<i>Note 3</i>)	<u>147,985</u>	<u>112,175</u>
Total liabilities	<u>342,403</u>	<u>291,185</u>
Net assets:		
Unrestricted	407,958	319,148
Temporarily restricted (<i>Note 4</i>)	<u>7,695</u>	<u>71,685</u>
Total net assets	<u>415,653</u>	<u>390,833</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 758,056</u>	 <u>\$ 682,018</u>

See accompanying notes to financial statements.

HITS Theatre

Statement of Activities for the year ended September 30, 2013

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Tuition, net of scholarships of \$20,386	\$ 466,770		\$ 466,770
Contributions	251,087	\$ 152,900	403,987
Special events	149,682		149,682
Donor benefit costs of special events	(43,534)		(43,534)
Ticket sales	51,970		51,970
Other revenue	<u>6,628</u>	<u> </u>	<u>6,628</u>
Total revenue	882,603	152,900	1,035,503
Net assets released from restrictions:			
Expended for scholarships and programs	154,290	(154,290)	
Satisfaction of time restriction	<u>62,600</u>	<u>(62,600)</u>	<u> </u>
Total	<u>1,099,493</u>	<u>(63,990)</u>	<u>1,035,503</u>
EXPENSES:			
Program services	713,170		713,170
Management and general	173,363		173,363
Fundraising	<u>124,150</u>	<u> </u>	<u>124,150</u>
Total expenses	<u>1,010,683</u>	<u> </u>	<u>1,010,683</u>
CHANGES IN NET ASSETS	88,810	(63,990)	24,820
Net assets, beginning of year	<u>319,148</u>	<u>71,685</u>	<u>390,833</u>
Net assets, end of year	<u>\$ 407,958</u>	<u>\$ 7,695</u>	<u>\$ 415,653</u>

See accompanying notes to financial statements.

HITS Theatre

Statement of Activities for the year ended September 30, 2012

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Tuition, net of scholarships of \$26,800	\$ 397,965		\$ 397,965
Contributions	408,361	\$ 185,253	593,614
Special events	140,044		140,044
Donor benefit costs of special events	(38,598)		(38,598)
Ticket sales	37,788		37,788
Other revenue	<u>4,451</u>	<u> </u>	<u>4,451</u>
Total revenue	950,011	185,253	1,135,264
Net assets released from restrictions:			
Expended for scholarships and programs	<u>118,668</u>	<u>(118,668)</u>	<u> </u>
Total	<u>1,068,679</u>	<u>66,585</u>	<u>1,135,264</u>
EXPENSES:			
Program services	685,805		685,805
Management and general	154,641		154,641
Fundraising	<u>117,596</u>		<u>117,596</u>
Total expenses	<u>958,042</u>		<u>958,042</u>
CHANGES IN NET ASSETS	110,637	66,585	177,222
Net assets, beginning of year	<u>208,511</u>	<u>5,100</u>	<u>213,611</u>
Net assets, end of year	<u>\$ 319,148</u>	<u>\$ 71,685</u>	<u>\$ 390,833</u>

See accompanying notes to financial statements.

HITS Theatre

Statements of Cash Flows for the years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 24,820	\$ 177,222
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	20,636	15,747
Changes in operating assets and liabilities:		
Pledges receivable	82,072	(78,035)
Prepaid expenses and other assets	3,148	(8,716)
Accounts payable	(13,139)	19,535
Deferred revenue	<u>28,547</u>	<u>20,768</u>
Net cash provided by operating activities	<u>146,084</u>	<u>146,521</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(59,032)</u>	<u>(37,730)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	45,000	
Repayment of notes payable	<u>(9,190)</u>	<u>(6,218)</u>
Net cash provided (used) by financing activities	<u>35,810</u>	<u>(6,218)</u>
NET CHANGE IN CASH	122,862	102,573
Cash, beginning of year	<u>394,743</u>	<u>292,170</u>
Cash, end of year	<u>\$ 517,605</u>	<u>\$ 394,743</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$6,443	\$6,475

See accompanying notes to financial statements.

HITS Theatre

Notes to Financial Statements for the years ended September 30, 2013 and 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – HITS Theatre (HITS) is a non-profit arts and education organization dedicated to providing school-age students with the highest quality performing arts education with a focus on training in musical theater disciplines of voice, dance, and acting. HITS programs registered over 1,000 theatre, voice, and dance students in 2013 and over 900 in 2012.

Federal income tax status – HITS is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii). HITS files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. HITS believes it is no longer subject to examinations of returns for tax years ended before September 30, 2010.

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows. Pledges receivable at September 30, 2013 are expected to be collected within one year.

Property is reported at cost if purchased or at fair value at the date of gift if donated. HITS' policy is to capitalize property purchases over \$500. Depreciation is provided using the straight-line basis over estimated useful lives of 10 to 20 years for building and improvements and 3 to 5 years for furniture and equipment.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Tuition is recognized in the period in which the services are provided and are shown net of scholarships and discounts. Amounts received in advance are reported as deferred revenue until earned.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Non-cash contributions – Donated materials and services are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is

recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Special events revenue is recognized when the event occurs. Amounts received in advance are reported as deferred revenue until earned.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – PROPERTY

Property is comprised of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 44,440	\$ 44,440
Theatre building and improvements	505,251	449,418
Furniture and equipment	<u>116,000</u>	<u>112,801</u>
Total property, at cost	665,691	606,659
Accumulated depreciation	<u>(464,635)</u>	<u>(443,999)</u>
Property, net	<u>\$ 201,056</u>	<u>\$ 162,660</u>

NOTE 3 – NOTES PAYABLE

During 2013, HITS borrowed \$45,000 from a bank at a fixed interest rate of 4.25%. The note is secured by real property. Interest expense recognized and paid on the note was approximately \$1,400 during 2013. The note matures in December 2019. Principal and interest payments of \$462 are due monthly with the final payment of \$16,045 due at maturity.

During 2008, HITS borrowed \$165,000 from a bank. In December 2012, HITS refinanced the note which bears interest at a rate of 4.25% and matures in January 2021. The note is secured by real property. Interest expense recognized and paid on the note was approximately \$5,100 during 2013 and \$6,480 during 2012. Principal and interest payments of \$922 are due monthly with the final payment of \$50,643 due at maturity.

Repayment of the notes payable is as follows:

2014	\$ 10,446
2015	10,905
2016	11,370
2017	11,884
2018	12,406
Thereafter	<u>90,974</u>
Total notes payable	<u>\$ 147,985</u>

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 6,904	\$ 1,520
Future operations		62,600
Website development		7,565
Other	<u>791</u>	<u> </u>
Total temporarily restricted net assets	<u>\$ 7,695</u>	<u>\$ 71,685</u>

NOTE 5 – IN-KIND CONTRIBUTIONS

HITS recognized the following in-kind contributions and expenses during the year ended September 30, 2013:

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Technical contractor services	\$ 32,910			\$ 32,910
Advertising and marketing	1,680		\$ 12,968	14,648
Facility and equipment rentals	4,000			4,000
Printing			3,979	3,979
Supplies	<u> </u>	<u> </u>	<u>2,050</u>	<u>2,050</u>
Total in-kind contributions	<u>\$ 38,590</u>	<u>\$ 0</u>	<u>\$ 18,997</u>	<u>\$ 57,587</u>

HITS recognized the following in-kind contributions and expenses during the year ended September 30, 2012:

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Technical contractor services	\$ 33,203			\$ 33,203
Advertising and marketing	650		\$ 17,290	17,940
Facility and equipment rentals	4,100		276	4,376
Printing	702		3,201	3,903
Supplies	<u> </u>	<u> </u>	<u>3,547</u>	<u>3,547</u>
Total in-kind contributions	<u>\$ 38,655</u>	<u>\$ 0</u>	<u>\$ 24,314</u>	<u>\$ 62,969</u>

NOTE 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 26, 2014, which is the date that the financial statements were available for issuance. No events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.