

HITS Theatre

Financial Statements
and Independent Auditors' Report
for the years ended September 30, 2015 and 2014

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, 2015 and 2014 and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

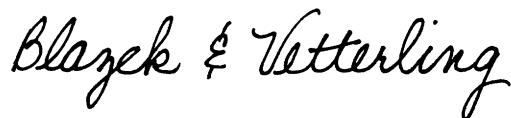
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2015 and 2014 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



April 14, 2016

HITS Theatre

Statements of Financial Position as of September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 521,396	\$ 555,814
Pledges receivable	6,100	62,942
Prepaid expenses and other assets	53,405	93,004
Property, net (<i>Note 2</i>)	<u>177,204</u>	<u>195,513</u>
TOTAL ASSETS	<u>\$ 758,105</u>	<u>\$ 907,273</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 23,532	\$ 17,447
Deferred revenue:		
Tuition	118,915	91,004
Special events	60,097	64,724
Conditional contributions (<i>Note 4</i>)		59,000
Notes payable (<i>Note 3</i>)	<u>126,621</u>	<u>136,630</u>
Total liabilities	<u>329,165</u>	<u>368,805</u>
Net assets:		
Unrestricted	428,940	484,999
Temporarily restricted for future operations		50,000
Temporarily restricted for scholarships and other		<u>3,469</u>
Total net assets	<u>428,940</u>	<u>538,468</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 758,105</u>	<u>\$ 907,273</u>

See accompanying notes to financial statements.

HITS Theatre

Statement of Activities for the year ended September 30, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Tuition, net of scholarships of \$11,646	\$ 485,334		\$ 485,334
Contributions (<i>Note 4</i>)	299,318	\$ 162,023	461,341
Special events	129,093		129,093
Donor benefit costs of special events	(37,830)		(37,830)
Ticket sales	61,596		61,596
Other revenue	9,040		9,040
Total revenue	<u>946,551</u>	<u>162,023</u>	<u>1,108,574</u>
Net assets released from restrictions:			
Expended for scholarships and programs	165,492	(165,492)	
Satisfaction of time restriction	<u>50,000</u>	<u>(50,000)</u>	
Total	<u>1,162,043</u>	<u>(53,469)</u>	<u>1,108,574</u>
EXPENSES:			
Program services	906,848		906,848
Management and general	181,697		181,697
Fundraising	<u>129,557</u>		<u>129,557</u>
Total expenses	<u>1,218,102</u>		<u>1,218,102</u>
CHANGES IN NET ASSETS	(56,059)	(53,469)	(109,528)
Net assets, beginning of year	<u>484,999</u>	<u>53,469</u>	<u>538,468</u>
Net assets, end of year	<u>\$ 428,940</u>	<u>\$ 0</u>	<u>\$ 428,940</u>

See accompanying notes to financial statements.

HITS Theatre

Statement of Activities for the year ended September 30, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Tuition, net of scholarships of \$13,411	\$ 478,613		\$ 478,613
Contributions (<i>Note 4</i>)	300,485	\$ 64,820	365,305
Special events	142,736		142,736
Donor benefit costs of special events	(44,885)		(44,885)
Ticket sales	61,495		61,495
Other revenue	<u>1,458</u>	<u> </u>	<u>1,458</u>
Total revenue	939,902	64,820	1,004,722
Net assets released from restrictions:			
Expended for scholarships and programs	<u>19,046</u>	<u>(19,046)</u>	<u> </u>
Total	<u>958,948</u>	<u>45,774</u>	<u>1,004,722</u>
EXPENSES:			
Program services	594,059		594,059
Management and general	175,009		175,009
Fundraising	<u>112,839</u>		<u>112,839</u>
Total expenses	<u>881,907</u>		<u>881,907</u>
CHANGES IN NET ASSETS	77,041	45,774	122,815
Net assets, beginning of year	<u>407,958</u>	<u>7,695</u>	<u>415,653</u>
Net assets, end of year	<u>\$ 484,999</u>	<u>\$ 53,469</u>	<u>\$ 538,468</u>

See accompanying notes to financial statements.

HITS Theatre

Statements of Cash Flows for the years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (109,528)	\$ 122,815
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	22,662	20,871
Changes in operating assets and liabilities:		
Pledges receivable	56,842	(60,852)
Prepaid expenses and other assets	39,599	(55,699)
Accounts payable	6,085	899
Deferred revenue	<u>(35,716)</u>	<u>36,858</u>
Net cash provided (used) by operating activities	<u>(20,056)</u>	<u>64,892</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(4,353)</u>	<u>(15,328)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	<u>(10,009)</u>	<u>(11,355)</u>
NET CHANGE IN CASH	(34,418)	38,209
Cash, beginning of year	<u>555,814</u>	<u>517,605</u>
Cash, end of year	<u>\$ 521,396</u>	<u>\$ 555,814</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$5,225	\$6,648

See accompanying notes to financial statements.

HITS Theatre

Notes to Financial Statements for the years ended September 30, 2015 and 2014

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 1,200 theatre, voice, and dance students in 2015 and over 950 in 2014.

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, 2012.

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, 2015 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. Conditional contributions received in advance are reported as deferred revenue until earned.

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>2015</u>	<u>2014</u>
Land	\$ 44,440	\$ 44,440
Theatre building and improvements	515,302	515,302
Furniture and equipment	<u>125,630</u>	<u>121,277</u>
Total property, at cost	685,372	681,019
Accumulated depreciation	<u>(508,168)</u>	<u>(485,506)</u>
Property, net	<u>\$ 177,204</u>	<u>\$ 195,513</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 2015 and \$1,900 during 2014. 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 \$3,800 during 2015 and \$4,800 during 2014. 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:

2016	\$ 11,370
2017	11,884
2018	12,406
2019	12,951
2020	25,350
Thereafter	<u>52,660</u>
Total notes payable	<u>\$ 126,621</u>

NOTE 4 – CONTRIBUTIONS

HITS recognized the following in-kind contributions and expenses during the year ended September 30, 2015:

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Technical contractor services	\$ 71,204			\$ 71,204
Facility and equipment rentals	8,600			8,600
Printing	<u>2,202</u>	<u> </u>	\$ <u>3,282</u>	<u>5,484</u>
Total in-kind contributions	<u>\$ 82,006</u>	<u>\$ 0</u>	<u>\$ 3,282</u>	<u>\$ 85,288</u>

HITS recognized the following in-kind contributions and expenses during the year ended September 30, 2014:

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Printing			\$ 3,282	\$ 3,282
Advertising and marketing	\$ 1,845		5,425	7,270
Supplies	<u>118</u>	<u> </u>	<u>3,762</u>	<u>3,880</u>
Total in-kind contributions	<u>\$ 1,963</u>	<u>\$ 0</u>	<u>\$ 12,469</u>	<u>\$ 14,432</u>

During 2014, HITS received conditional contributions of \$62,500 of cash support and \$38,577 of in-kind support that were contingent upon the completion of a production at Miller Outdoor Theatre. This condition was satisfied during 2015 and the amounts were recognized as contributions revenue in 2015. Cash of \$59,000 received during 2014 was reported as deferred revenue at September 30, 2014.

NOTE 5 – LEASE COMMITMENTS

HITS leases certain office and storage space under noncancellable operating leases. Future minimum lease payments are due as follows:

2016	\$ 32,300
2017	<u>17,100</u>
Total	<u>\$ 49,400</u>

Lease expense of approximately \$29,000 and \$22,000 were recognized in 2015 and 2014, respectively.

NOTE 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 14, 2016, which is the date that the financial statements were available for issuance. As a result of this evaluation, 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.