

**HITS Theatre**

Financial Statements  
and Independent Auditors' Report  
for the years ended September 30, 2018 and 2017

## 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, 2018 and 2017 and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

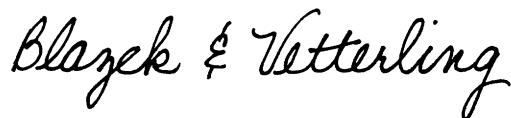
**Management's Responsibility for the Financial Statements** – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2018 and 2017 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.



January 17, 2019

## HITS Theatre

### Statements of Financial Position as of September 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 326,968	\$ 348,541
Pledges receivable	-	6,157
Prepaid expenses and other assets	18,811	24,819
Property, net ( <i>Note 2</i> )	<u>161,040</u>	<u>156,846</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 506,819</u></b>	<b><u>\$ 536,363</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 20,522	\$ 29,401
Deferred revenue	73,949	91,537
Notes payable ( <i>Note 3</i> )	<u>87,944</u>	<u>103,347</u>
Total liabilities	<u>182,415</u>	<u>224,285</u>
Net assets:		
Unrestricted	309,053	291,198
Temporarily restricted ( <i>Note 4</i> )	<u>15,351</u>	<u>20,880</u>
Total net assets	<u>324,404</u>	<u>312,078</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 506,819</u></b>	<b><u>\$ 536,363</u></b>

*See accompanying notes to financial statements.*

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## HITS Theatre

### Statement of Activities for the year ended September 30, 2018

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Tuition, net of scholarships of \$24,568	\$ 428,044		\$ 428,044
Contributions ( <i>Note 5</i> )	346,278	\$ 157,161	503,439
Ticket sales	44,585		44,585
Theatre rental	19,550		19,550
Other revenue	<u>21,334</u>	<u>          </u>	<u>21,334</u>
Total revenue	859,791	157,161	1,016,952
Net assets released from restrictions:			
Expended for scholarships and programs	<u>162,690</u>	<u>(162,690)</u>	<u>          </u>
Total	<u>1,022,481</u>	<u>(5,529)</u>	<u>1,016,952</u>
EXPENSES:			
Program services	684,488		684,488
Management and general	213,159		213,159
Fundraising	<u>106,979</u>	<u>          </u>	<u>106,979</u>
Total expenses	<u>1,004,626</u>	<u>          </u>	<u>1,004,626</u>
CHANGES IN NET ASSETS	17,855	(5,529)	12,326
Net assets, beginning of year	<u>291,198</u>	<u>20,880</u>	<u>312,078</u>
Net assets, end of year	<u>\$ 309,053</u>	<u>\$ 15,351</u>	<u>\$ 324,404</u>

*See accompanying notes to financial statements.*

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## HITS Theatre

Statement of Activities for the year ended September 30, 2017

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Tuition, net of scholarships of \$20,785	\$ 441,199		\$ 441,199
Contributions ( <i>Note 5</i> )	215,261	\$ 121,325	336,586
Special events	136,412		136,412
Donor benefit costs of special events	(33,310)		(33,310)
Ticket sales	48,855		48,855
Theatre rental	15,655		15,655
Other revenue	<u>18,435</u>	<u>          </u>	<u>18,435</u>
Total revenue	842,507	121,325	963,832
Net assets released from restrictions:			
Expended for scholarships and programs	<u>109,551</u>	<u>(109,551)</u>	<u>          </u>
Total	<u>952,058</u>	<u>11,774</u>	<u>963,832</u>
EXPENSES:			
Program services	625,874		625,874
Management and general	213,981		213,981
Fundraising	<u>117,442</u>		<u>117,442</u>
Total expenses	<u>957,297</u>		<u>957,297</u>
CHANGES IN NET ASSETS	(5,239)	11,774	6,535
Net assets, beginning of year	<u>296,437</u>	<u>9,106</u>	<u>305,543</u>
Net assets, end of year	<u>\$ 291,198</u>	<u>\$ 20,880</u>	<u>\$ 312,078</u>

*See accompanying notes to financial statements.*

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## HITS Theatre

### Statements of Cash Flows for the years ended September 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 12,326	\$ 6,535
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	19,506	18,431
Changes in operating assets and liabilities:		
Pledges receivable	6,157	30,243
Prepaid expenses and other assets	6,008	32,208
Accounts payable	(8,879)	9,649
Deferred revenue	<u>(17,588)</u>	<u>(61,887)</u>
Net cash provided by operating activities	<u>17,530</u>	<u>35,179</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property	<u>(23,700)</u>	<u>(8,377)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of notes payable	<u>(15,403)</u>	<u>(11,897)</u>
<b>NET CHANGE IN CASH</b>	<b>(21,573)</b>	<b>14,905</b>
Cash, beginning of year	<u>348,541</u>	<u>333,636</u>
Cash, end of year	<u>\$ 326,968</u>	<u>\$ 348,541</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$4,775	\$4,722

*See accompanying notes to financial statements.*

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## HITS Theatre

Notes to Financial Statements for the years ended September 30, 2018 and 2017

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### 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 900 theatre, voice, and dance students in 2018 and 2017.

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).

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.

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 is reported 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.

Ticket sales and theatre rental are recognized when the performance or theatre use occurs.

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.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. HITS is required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

## NOTE 2 – PROPERTY

Property is comprised of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 44,440	\$ 44,440
Theatre building and improvements	520,705	515,302
Furniture and equipment	<u>165,505</u>	<u>147,208</u>
Total property, at cost	730,650	706,950
Accumulated depreciation	<u>(569,610)</u>	<u>(550,104)</u>
Property, net	<u>\$ 161,040</u>	<u>\$ 156,846</u>

## NOTE 3 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2018</u>	<u>2017</u>
Note payable to a bank with interest at 5.50%. Principal and interest payments of \$1,431 are due monthly with the final payment of \$33,861 due at maturity in January 2021. Collateralized by real property.	\$ 66,491	\$ 77,372
Note payable to a bank with interest at 4.25%. Principal and interest payments of \$462 are due monthly with the final payment of \$16,045 due at maturity in December 2019. Collateralized by real property.	<u>21,453</u>	<u>25,975</u>
Total notes payable	<u>\$ 87,944</u>	<u>\$ 103,347</u>

Notes payable are due as follows:

2019	\$ 18,558
2020	31,370
2021	<u>38,016</u>
Total notes payable	<u>\$ 87,944</u>

**NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Property additions and repairs	\$ 15,351	\$ 5,440
Future productions		10,000
Scholarships		<u>5,440</u>
Total temporarily restricted net assets	<u>\$ 15,351</u>	<u>\$ 20,880</u>

**NOTE 5 – CONTRIBUTIONS**

HITS recognized the following in-kind contributions and expenses during the year ended September 30, 2018:

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Technical contractor services	\$ 47,000			\$ 47,000
Printing and supplies	7,464		\$ 120	7,584
Facility and equipment rentals	<u>3,300</u>			<u>3,300</u>
Total in-kind contributions	<u>\$ 57,764</u>	<u>\$ 0</u>	<u>\$ 120</u>	<u>\$ 57,884</u>

HITS recognized the following in-kind contributions and expenses during the year ended September 30, 2017:

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Technical contractor services	\$ 47,000			\$ 47,000
Printing and supplies	1,757		\$ 3,281	5,038
Facility and equipment rentals	3,600			3,600
Consulting services		<u>\$ 7,500</u>		<u>7,500</u>
Total in-kind contributions	<u>\$ 52,357</u>	<u>\$ 7,500</u>	<u>\$ 3,281</u>	<u>\$ 63,138</u>

**NOTE 6 – COMMITMENTS**

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

2019	\$ 22,735
2020	21,635
2021	7,114
2022	<u>3,557</u>
Total	<u>\$ 55,041</u>

Lease expense of approximately \$20,000 was recognized in 2018 and 2017.

**NOTE 7 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 17, 2019, 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.

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