

HITS Theatre

Financial Statements
and Independent Auditors' Report
for the years ended September 30, 2019 and 2018

HITS Theatre

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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, 2019 and 2018 and the related statements of activities, of functional expenses, 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, 2019 and 2018 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.

Blazek & Vetterling

December 9, 2019

HITS Theatre

Statements of Financial Position as of September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 211,780	\$ 326,968
Contributions receivable	80,973	
Prepaid expenses and other assets	20,057	18,811
Property, net (<i>Note 4</i>)	<u>151,960</u>	<u>161,040</u>
TOTAL ASSETS	<u>\$ 464,770</u>	<u>\$ 506,819</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 16,100	\$ 20,522
Deferred revenue	66,344	73,949
Notes payable (<i>Note 5</i>)	<u>69,456</u>	<u>87,944</u>
Total liabilities	<u>151,900</u>	<u>182,415</u>
Net assets:		
Without donor restrictions	164,148	309,053
With donor restrictions (<i>Note 6</i>)	<u>148,722</u>	<u>15,351</u>
Total net assets	<u>312,870</u>	<u>324,404</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 464,770</u>	<u>\$ 506,819</u>

See accompanying notes to financial statements.

HITS Theatre

Statement of Activities for the year ended September 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Tuition, net of scholarships of \$20,050	\$ 390,053		\$ 390,053
Contributions (<i>Note 7</i>)	246,728	\$ 283,720	530,448
Ticket sales	35,330		35,330
Theatre rental	19,350		19,350
Other revenue	<u>5,312</u>	<u> </u>	<u>5,312</u>
Total revenue	696,773	283,720	980,493
Net assets released from restrictions:			
Expended for scholarships and programs	<u>150,349</u>	<u>(150,349)</u>	<u> </u>
Total	<u>847,122</u>	<u>133,371</u>	<u>980,493</u>
EXPENSES:			
Program services	682,355		682,355
Management and general	180,109		180,109
Fundraising	<u>129,563</u>	<u> </u>	<u>129,563</u>
Total expenses	<u>992,027</u>	<u> </u>	<u>992,027</u>
CHANGES IN NET ASSETS	(144,905)	133,371	(11,534)
Net assets, beginning of year	<u>309,053</u>	<u>15,351</u>	<u>324,404</u>
Net assets, end of year	<u>\$ 164,148</u>	<u>\$ 148,722</u>	<u>\$ 312,870</u>

See accompanying notes to financial statements.

HITS Theatre

Statement of Activities for the year ended September 30, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Tuition, net of scholarships of \$24,568	\$ 428,044		\$ 428,044
Contributions (<i>Note 7</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 (<i>Note 2</i>)	<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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Statements of Functional Expenses for the years ended September 30, 2019 and 2018

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2019 TOTAL EXPENSES
Salaries and related benefits	\$ 152,987	\$ 93,106	\$ 104,720	\$ 350,813
Contracted services	360,941	5,375	3,776	370,092
Production supplies	40,248			40,248
Depreciation	27,153	1,658	727	29,538
Rent	29,195			29,195
Printing and postage	5,768	10,764	5,769	22,301
Professional fees	383	20,985		21,368
Office supplies and expenses	5,423	3,237	9,957	18,617
Insurance	14,741	2,674	523	17,938
Information technology	8,138	7,037	2,457	17,632
Bank fees		14,157		14,157
Utilities	10,409	2,560	1,155	14,124
Repairs and maintenance	8,057	5,111	273	13,441
Royalties	7,752			7,752
Travel	6,169	78	65	6,312
Other	4,991	13,367	141	18,499
Total expenses	<u>\$ 682,355</u>	<u>\$ 180,109</u>	<u>\$ 129,563</u>	<u>\$ 992,027</u>

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2018 TOTAL EXPENSES
Salaries and related benefits	\$ 143,675	\$ 102,734	\$ 84,450	\$ 330,859
Contracted services	387,300	16,788	4,273	408,361
Production supplies	47,251			47,251
Depreciation	19,506			19,506
Rent	24,209			24,209
Printing and postage	6,659	10,432	6,135	23,226
Professional fees		25,979		25,979
Office supplies and expenses	2,266	9,149	4,059	15,474
Insurance	14,227	2,093	509	16,829
Information technology	55	4,522	4,282	8,859
Bank fees		14,131		14,131
Utilities	10,684	2,889	997	14,570
Repairs and maintenance	12,644	4,984	448	18,076
Royalties	15,636			15,636
Travel	376	450	666	1,492
Other		19,008	1,160	20,168
Total expenses	<u>\$ 684,488</u>	<u>\$ 213,159</u>	<u>\$ 106,979</u>	<u>\$ 1,004,626</u>

See accompanying notes to financial statements.

HITS Theatre

Statements of Cash Flows for the years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (11,534)	\$ 12,326
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	29,538	19,506
Changes in operating assets and liabilities:		
Contributions receivable	(80,973)	6,157
Prepaid expenses and other assets	(1,246)	6,008
Accounts payable	(4,422)	(8,879)
Deferred revenue	<u>(7,605)</u>	<u>(17,588)</u>
Net cash provided (used) by operating activities	<u>(76,242)</u>	<u>17,530</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(20,458)</u>	<u>(23,700)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	<u>(18,488)</u>	<u>(15,403)</u>
NET CHANGE IN CASH	(115,188)	(21,573)
Cash, beginning of year	<u>326,968</u>	<u>348,541</u>
Cash, end of year	<u>\$ 211,780</u>	<u>\$ 326,968</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$4,230	\$4,775

See accompanying notes to financial statements.

HITS Theatre

Notes to Financial Statements for the years ended September 30, 2019 and 2018

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 850 theatre, voice, and dance students in 2019 and over 900 in 2018.

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).

Contributions 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, if material, to estimate the present value of future cash flows. Contributions receivable of \$55,973 are expected to be collected in 2020 with the balance of \$25,000 due in 2021. At September 30, 2019, 86% of HITS' total contributions receivable balance were from two donors.

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 – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

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.

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.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted generally based on estimated time and effort expended or estimated usage of related facilities.

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 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

HITS adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended September 30, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended September 30, 2018. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of September 30, comprise the following:

	<u>2019</u>	<u>2018</u>
Financial assets at September 30:		
Cash	\$ 211,780	\$ 326,968
Contributions receivable	80,973	
Other assets	<u>1,836</u>	<u>5,032</u>
Total financial assets	294,589	332,000
Less financial assets not available for general expenditure:		
Donor-restricted assets for use in future periods	(25,000)	(7,765)
Board-designated operating reserve fund	<u>(116,714)</u>	<u>(200,340)</u>
Total financial assets available for general expenditure	<u>\$ 152,875</u>	<u>\$ 123,895</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, HITS considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures. HITS is substantially supported by tuition revenue and contributions, and regularly monitors liquidity required to meet its operating needs. As part of its liquidity management, HITS has a policy to structure its financial assets to be available as

its general expenditures, liabilities, and other obligations become due. HITS also has a board-designated operating reserve fund which may be made available at the discretion of the Board.

NOTE 4 – PROPERTY

Property is comprised of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 44,440	\$ 44,440
Theatre building and improvements	523,485	520,705
Furniture and equipment	<u>183,183</u>	<u>165,505</u>
Total property, at cost	751,108	730,650
Accumulated depreciation	<u>(599,148)</u>	<u>(569,610)</u>
Property, net	<u>\$ 151,960</u>	<u>\$ 161,040</u>

NOTE 5 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2019</u>	<u>2018</u>
Note payable to a bank with interest at 5.50%, collateralized by real property.	\$ 52,709	\$ 66,491
Note payable to a bank with interest at 4.25%, collateralized by real property.	<u>16,747</u>	<u>21,453</u>
Total notes payable	<u>\$ 69,456</u>	<u>\$ 87,944</u>

Interest expense of \$4,230 was recognized in 2019 and \$4,775 was recognized in 2018.

Effective November 21, 2019, HITS refinanced notes payable by entering into a promissory note with a bank in an amount of \$125,000 with an interest rate of 5% and maturity date of November 21, 2026. Principal and interest are due in monthly installments of \$1,771 with remaining principal and accrued interest due at maturity. The note is secured by real property.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Outreach and programming	\$ 115,957	
Future productions	20,000	
Property additions and repairs	<u>12,765</u>	<u>\$ 15,351</u>
Total net assets with donor restrictions	<u>\$ 148,722</u>	<u>\$ 15,351</u>

NOTE 7 – CONTRIBUTIONS

HITS recognized in-kind contributions and program expenses as follows:

	<u>2019</u>	<u>2018</u>
Contracted services	\$ 44,000	\$ 47,000
Printing and supplies	1,241	7,584
Facility and equipment rent	<u>3,600</u>	<u>3,300</u>
Total in-kind contributions	<u>\$ 48,841</u>	<u>\$ 57,884</u>

NOTE 8 – COMMITMENTS

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

2020	\$ 22,332
2021	7,114
2022	<u>3,557</u>
Total	<u>\$ 33,003</u>

Rent expense of \$29,195 and \$24,209 was recognized in 2019 and 2018, respectively.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 9, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the refinancing of debt disclosed in Note 5 were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
