

HITS Theatre

Financial Statements
and Independent Accountants' Review Report
for the year ended September 30, 2020

HITS Theatre

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Independent Accountants' Review Report

To the Board of Directors of
HITS Theatre:

We have reviewed the accompanying financial statements of HITS Theatre, which comprise the statement of financial position as of September 30, 2020 and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

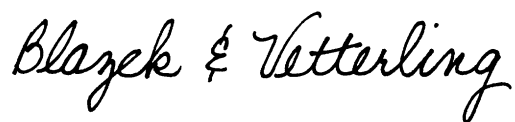
Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Financial Statements for the Year Ended September 30, 2019

The financial statements for the year ended September 30, 2019 were audited by us and we expressed an unmodified opinion on them in our report dated December 9, 2019, but we have not performed any auditing procedures since that date.



March 30, 2021

HITS Theatre

Statements of Financial Position as of September 30, 2020 and 2019

	REVIEWED <u>2020</u>	AUDITED <u>2019</u>
ASSETS		
Cash	\$ 137,756	\$ 211,780
Contributions receivable	76,462	80,973
Prepaid expenses and other assets	2,378	20,057
Property, net (<i>Note 4</i>)	<u>140,387</u>	<u>151,960</u>
TOTAL ASSETS	<u>\$ 356,983</u>	<u>\$ 464,770</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 15,333	\$ 16,100
Deferred revenue	6,433	66,344
Refundable advance – Paycheck Protection Program (<i>Note 5</i>)	42,500	
Notes payable (<i>Note 6</i>)	<u>112,305</u>	<u>69,456</u>
Total liabilities	<u>176,571</u>	<u>151,900</u>
Net assets:		
Without donor restrictions	120,314	164,148
With donor restrictions (<i>Note 7</i>)	<u>60,098</u>	<u>148,722</u>
Total net assets	<u>180,412</u>	<u>312,870</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 356,983</u>	<u>\$ 464,770</u>

See accompanying notes to financial statements and independent accountants' review report.

HITS Theatre

Statement of Activities for the year ended September 30, 2020 (Reviewed)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Tuition, net of scholarships of \$10,295	\$ 270,529		\$ 270,529
Contributions (<i>Note 8</i>)	119,877	\$ 187,765	307,642
Ticket sales	16,080		16,080
Theatre rental	12,955		12,955
Other revenue	<u>4,266</u>		<u>4,266</u>
Total revenue	423,707	187,765	611,472
Net assets released from restrictions:			
Expended for scholarships and programs	<u>276,389</u>	<u>(276,389)</u>	
Total	<u>700,096</u>	<u>(88,624)</u>	<u>611,472</u>
EXPENSES:			
Program services	526,209		526,209
Management and general	127,881		127,881
Fundraising	<u>89,840</u>		<u>89,840</u>
Total expenses	<u>743,930</u>		<u>743,930</u>
CHANGES IN NET ASSETS	(43,834)	(88,624)	(132,458)
Net assets, beginning of year	<u>164,148</u>	<u>148,722</u>	<u>312,870</u>
Net assets, end of year	<u>\$ 120,314</u>	<u>\$ 60,098</u>	<u>\$ 180,412</u>

See accompanying notes to financial statements and independent accountants' review report.

HITS Theatre

Statement of Activities for the year ended September 30, 2019 (Audited)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Tuition, net of scholarships of \$20,050	\$ 390,053		\$ 390,053
Contributions (<i>Note 8</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>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>	
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>129,563</u>
Total expenses	<u>992,027</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 and independent accountants' review report.

HITS Theatre

Statements of Functional Expenses for the years ended September 30, 2020 (Reviewed) and 2019 (Audited)

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2020 TOTAL EXPENSES
Salaries and related benefits	\$ 214,190	\$ 40,916	\$ 83,000	\$ 338,106
Contracted services	162,787	11,875	1,400	176,062
Depreciation	27,743	2,158	925	30,826
Production supplies	30,318			30,318
Rent	27,593			27,593
Professional fees		22,198		22,198
Insurance	16,877	2,601	548	20,026
Information technology	6,781	7,943		14,724
Utilities	7,802	5,082	699	13,583
Bank fees		13,499		13,499
Printing and postage	8,782	2,299	1,000	12,081
Repairs and maintenance	3,165	7,305	85	10,555
Royalties	9,404			9,404
Office supplies and expenses	2,037	1,996	1,818	5,851
Travel	1,992	357		2,349
Other	6,738	9,652	365	16,755
Total expenses	<u>\$ 526,209</u>	<u>\$ 127,881</u>	<u>\$ 89,840</u>	<u>\$ 743,930</u>

	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
Depreciation	27,153	1,658	727	29,538
Production supplies	40,248			40,248
Rent	29,195			29,195
Professional fees	383	20,985		21,368
Insurance	14,741	2,674	523	17,938
Information technology	8,138	7,037	2,457	17,632
Utilities	10,409	2,560	1,155	14,124
Bank fees		14,157		14,157
Printing and postage	5,768	10,764	5,769	22,301
Repairs and maintenance	8,057	5,111	273	13,441
Royalties	7,752			7,752
Office supplies and expenses	5,423	3,237	9,957	18,617
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>

See accompanying notes to financial statements and independent accountants' review report.

HITS Theatre

Statements of Cash Flows for the years ended September 30, 2020 and 2019

	REVIEWED <u>2020</u>	AUDITED <u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (132,458)	\$ (11,534)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	30,826	29,538
Changes in operating assets and liabilities:		
Contributions receivable	4,511	(80,973)
Prepaid expenses and other assets	17,679	(1,246)
Accounts payable and accrued expenses	(767)	(4,422)
Deferred revenue	(59,911)	(7,605)
Refundable advance – Paycheck Protection Program	<u>42,500</u>	<u> </u>
Net cash used by operating activities	<u>(97,620)</u>	<u>(76,242)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(19,253)</u>	<u>(20,458)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	58,337	
Repayment of notes payable	<u>(15,488)</u>	<u>(18,488)</u>
Net cash provided (used) by financing activities	<u>42,849</u>	<u>(18,488)</u>
NET CHANGE IN CASH	(74,024)	(115,188)
Cash, beginning of year	<u>211,780</u>	<u>326,968</u>
Cash, end of year	<u>\$ 137,756</u>	<u>\$ 211,780</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$5,035	\$4,230
Notes payable refinanced	\$66,663	

See accompanying notes to financial statements and independent accountants' review report.

HITS Theatre

Notes to Financial Statements for the years ended September 30, 2020 (Reviewed) and 2019 (Audited)

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 2020 and over 850 in 2019.

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 \$76,462 are expected to be collected in 2021. At September 30, 2020, 78% of HITS' total contributions receivable balance was from two donors. At September 30, 2019, 86% of HITS' total contributions receivable balance was 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 derived from providing theater arts classes to students and are recognized ratably over time as those classes are provided. Scholarships and discounts reduce the amount of consideration HITS expects to be entitled to receive, and tuition is presented net of scholarships and discounts. Tuition is due upon execution of the contract in accordance with the payment plans offered by HITS, all of which are due before classes are completed. Tuition collected in advance is deferred until performance obligations are met in the following fiscal year. Accounts receivable from tuition were \$441, \$1,836, and \$5,032 at September 30, 2020, 2019, and 2018, respectively. Deferred revenue were \$6,433, \$66,344 and \$73,949 at September 30, 2020, 2019, and 2018, respectively.

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 *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before

HITS is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been 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.

Ticket sales are derived from individual ticket sales for performances and are recognized when the performance occurs. Ticket sales are due when purchased. There are no contract assets or contract liabilities resulting from ticket sales at September 30, 2020, 2019 or 2018.

Theatre rental is recognized when the 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 UPDATES

HITS adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new guidance is that the entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services when performance obligations are satisfied and requires expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. HITS also adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions.

HITS adopted these ASU's effective October 1, 2019 using the full retrospective method. The timing and amount of revenue recognized previously is consistent with how revenue is recognized under these ASU's and therefore, adoption had no impact on total beginning net assets or changes in net assets for 2019, but resulted in additional disclosures and changes in presentation.

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>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 137,756	\$ 211,780
Contributions receivable	76,462	80,973
Other assets	<u>441</u>	<u>1,836</u>
Total financial assets	214,659	294,589
Less financial assets not available for general expenditure:		
Board-designated operating reserve fund	(117,434)	(116,714)
Donor-restricted assets for use in future periods	<u> </u>	<u>(25,000)</u>
Total financial assets available for general expenditure	<u>\$ 97,225</u>	<u>\$ 152,875</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 of Directors.

Since the declaration of a pandemic related to the global outbreak of the coronavirus COVID-19 in March 2020, HITS has postponed or cancelled in-person classes and performances, and offered some classes through on-line platforms. Business disruption caused by the pandemic has reduced ticket sales and tuition revenue. The extent of the impact of COVID-19 on HITS' future operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on customers, employees, and artists, all of which are uncertain and cannot be predicted. While HITS expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

NOTE 4 – PROPERTY

Property is comprised of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 44,440	\$ 44,440
Theatre building and improvements	539,241	523,485
Furniture and equipment	<u>186,680</u>	<u>183,183</u>
Total property, at cost	770,361	751,108
Accumulated depreciation	<u>(629,974)</u>	<u>(599,148)</u>
Property, net	<u>\$ 140,387</u>	<u>\$ 151,960</u>

NOTE 5 – REFUNDABLE ADVANCE

In May 2020, HITS received an unsecured bank loan of \$42,500 funded through the Small Business Administration’s (SBA) Paycheck Protection Program (PPP). PPP loan principal and interest may be forgiven, in whole or in part, if funds are used for the intended purposes within the covered period. HITS intends to apply for forgiveness and will recognize any forgiveness granted upon approval by the SBA. Unforgiven amounts, if any, bear interest at 1.0% and may be repaid over 2 years. In March 2021, HITS received notification that its PPP advance had been forgiven in full.

NOTE 6 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2020</u>	<u>2019</u>
Note payable to a bank with interest at 5.00% 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 collateralized by real property.	\$ 112,305	
Note payable to a bank with interest at 5.50%, collateralized by real property.		\$ 52,709
Note payable to a bank with interest at 4.25%, collateralized by real property.		<u>16,747</u>
Total notes payable	<u>\$ 112,305</u>	<u>\$ 69,456</u>

Principal repayments of notes payable are due as follows:

2021		\$ 15,948
2022		16,764
2023		17,621
2024		18,523
2025		19,471
Thereafter		<u>23,978</u>
Total		<u>\$ 112,305</u>

Interest expense of \$5,035 was recognized in 2020 and \$4,230 was recognized in 2019.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Outreach and programming	\$ 24,766	\$ 115,957
Future productions	35,332	20,000
Property additions and repairs		<u>12,765</u>
Total net assets with donor restrictions	<u>\$ 60,098</u>	<u>\$ 148,722</u>

NOTE 8 – CONTRIBUTIONS

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

	<u>2020</u>	<u>2019</u>
Printing and supplies	\$ 4,165	\$ 1,241
Contracted services	3,629	44,000
Facility and equipment rent	<u>3,600</u>	<u>3,600</u>
Total in-kind contributions	<u>\$ 11,394</u>	<u>\$ 48,841</u>

NOTE 9 – COMMITMENTS

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

2021	\$ 23,731
2022	20,993
2023	<u>1,728</u>
Total	<u>\$ 46,452</u>

Rent expense of \$27,593 and \$29,195 was recognized in 2020 and 2019, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

During 2020, HITS paid approximately \$12,000 to a company owned by a board member for major repair and renovations.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 30, 2021, 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.
