

HITS Theatre

Financial Statements
and Independent Accountants' Review Report
for the years ended September 30, 2021 and 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 statements of financial position as of September 30, 2021 and 2020 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. 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 engagements 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 reviews, 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.

Blazek & Vetterling

March 2, 2022

HITS Theatre

Statements of Financial Position as of September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 166,061	\$ 137,756
Contributions receivable	37,286	76,462
Prepaid expenses and other assets	12,404	2,378
Property, net (<i>Note 3</i>)	<u>127,409</u>	<u>140,387</u>
 TOTAL ASSETS	 <u>\$ 343,160</u>	 <u>\$ 356,983</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 9,318	\$ 15,333
Deferred tuition revenue	41,984	6,433
Refundable advance (<i>Note 2</i>)		42,500
Note payable (<i>Note 4</i>)	<u>96,380</u>	<u>112,305</u>
Total liabilities	<u>147,682</u>	<u>176,571</u>
Net assets:		
Without donor restrictions	179,962	120,314
With donor restrictions (<i>Note 5</i>)	<u>15,516</u>	<u>60,098</u>
Total net assets	<u>195,478</u>	<u>180,412</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 343,160</u>	 <u>\$ 356,983</u>

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

HITS Theatre

Statement of Activities for the year ended September 30, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Tuition, net of scholarships of \$20,632	\$ 243,441		\$ 243,441
Contributions:			
Contributed financial assets	176,469	\$ 59,698	236,167
In-kind (<i>Note 6</i>)	24,573		24,573
Other		85,367	85,367
Ticket sales	21,555		21,555
Theatre rental	17,400		17,400
Other revenue	<u>3,393</u>	<u> </u>	<u>3,393</u>
Total revenue	486,831	145,065	631,896
Net assets released from restrictions:			
Expended for scholarships and programs	<u>189,647</u>	<u>(189,647)</u>	<u> </u>
Total	<u>676,478</u>	<u>(44,582)</u>	<u>631,896</u>
EXPENSES:			
Program services	436,195		436,195
Management and general	120,787		120,787
Fundraising	<u>59,848</u>	<u> </u>	<u>59,848</u>
Total expenses	<u>616,830</u>	<u> </u>	<u>616,830</u>
CHANGES IN NET ASSETS	59,648	(44,582)	15,066
Net assets, beginning of year	<u>120,314</u>	<u>60,098</u>	<u>180,412</u>
Net assets, end of year	<u>\$ 179,962</u>	<u>\$ 15,516</u>	<u>\$ 195,478</u>

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

HITS Theatre

Statement of Activities for the year ended September 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Tuition, net of scholarships of \$10,295	\$ 270,529		\$ 270,529
Contributions:			
Contributed financial assets	108,483	\$ 187,765	296,248
In-kind (<i>Note 6</i>)	11,394		11,394
Ticket sales	16,080		16,080
Theatre rental	12,955		12,955
Other revenue	4,266		4,266
Total revenue	423,707	187,765	611,472
Net assets released from restrictions:			
Expended for scholarships and programs	276,389	(276,389)	
Total	700,096	(88,624)	611,472
EXPENSES:			
Program services	526,209		526,209
Management and general	127,881		127,881
Fundraising	89,840		89,840
Total expenses	743,930		743,930
CHANGES IN NET ASSETS	(43,834)	(88,624)	(132,458)
Net assets, beginning of year	164,148	148,722	312,870
Net assets, end of year	\$ 120,314	\$ 60,098	\$ 180,412

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

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Statements of Functional Expenses for the years ended September 30, 2021 and 2020

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2021 TOTAL EXPENSES
Salaries and related benefits	\$ 141,614	\$ 55,447	\$ 51,009	\$ 248,070
Contracted services	171,951	2,300	3,450	177,701
Depreciation	28,021	2,179	934	31,134
Production supplies	29,386			29,386
Rent	21,728	168		21,896
Professional fees		17,528		17,528
Utilities	10,472	4,434	679	15,585
Insurance	11,147	2,551	365	14,063
Information technology	739	12,460		13,199
Printing and postage	8,019	2,317	1,778	12,114
Repairs and maintenance	1,108	9,789		10,897
Bank fees		10,319		10,319
Office supplies and expenses	495	983	1,234	2,712
Royalties	1,906			1,906
Other	9,609	312	399	10,320
Total expenses	<u>\$ 436,195</u>	<u>\$ 120,787</u>	<u>\$ 59,848</u>	<u>\$ 616,830</u>

	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
Utilities	10,542	5,603	784	16,929
Insurance	16,877	2,601	548	20,026
Information technology	6,781	7,943		14,724
Printing and postage	8,782	2,299	1,000	12,081
Repairs and maintenance	425	6,784		7,209
Bank fees		13,499		13,499
Office supplies and expenses	2,037	1,996	1,818	5,851
Royalties	9,404			9,404
Other	8,730	10,009	365	19,104
Total expenses	<u>\$ 526,209</u>	<u>\$ 127,881</u>	<u>\$ 89,840</u>	<u>\$ 743,930</u>

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

HITS Theatre

Statements of Cash Flows for the years ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 15,066	\$ (132,458)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	31,134	30,826
Changes in operating assets and liabilities:		
Contributions receivable	39,176	4,511
Prepaid expenses and other assets	(10,026)	17,679
Accounts payable and accrued expenses	(6,015)	(767)
Deferred revenue	35,551	(59,911)
Refundable advance	<u>(42,500)</u>	<u>42,500</u>
Net cash provided (used) by operating activities	<u>62,386</u>	<u>(97,620)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(18,156)</u>	<u>(19,253)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable		58,337
Repayment of note payable	<u>(15,925)</u>	<u>(15,488)</u>
Net cash provided (used) by financing activities	<u>(15,925)</u>	<u>42,849</u>
NET CHANGE IN CASH	28,305	(74,024)
Cash, beginning of year	<u>137,756</u>	<u>211,780</u>
Cash, end of year	<u>\$ 166,061</u>	<u>\$ 137,756</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$5,700	\$5,035
Note 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, 2021 and 2020

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 1,125 theatre, voice, and dance students in 2021 and over 850 in 2020.

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 at September 30, 2021 are expected to be collected in 2021. At September 30, 2021, 95% of HITS' total contributions receivable balance was from two donors. At September 30, 2020, 78% 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 \$1,670, \$441, and \$1,836 at September 30, 2021, 2020, and 2019, respectively. Deferred revenue were \$41,984, \$6,433 and \$66,344 at September 30, 2021, 2020, and 2019, 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 for performances 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, 2021, 2020, or 2019.

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 – 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>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 166,061	\$ 137,756
Contributions receivable	37,286	76,462
Other assets	<u>1,670</u>	<u>441</u>
Total financial assets	205,017	214,659
Less financial assets not available for general expenditure:		
Board-designated operating reserve fund	<u>(117,634)</u>	<u>(117,434)</u>
Total financial assets available for general expenditure	<u>\$ 87,383</u>	<u>\$ 97,225</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.

Due to the COVID-19 pandemic, HITS has scaled back in-person performances, fundraising events, and offered classes through on-line platforms. Business disruption caused by the pandemic 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, nearly all of which are uncertain and cannot be predicted. By Summer 2021, tuition revenue and ticket sales returned to pre-pandemic levels, and HITS is optimistic as more classes are being added back to programming calendars and registration numbers are increasing.

In May 2020, HITS received an unsecured bank loan of \$42,500 funded through the Small Business Administration's (SBA) Paycheck Protection Program (PPP). The loan was forgiven in March 2021 as HITS met the eligibility requirements and used the loan to fund qualified payroll and other eligible costs. In April 2021, HITS received an additional unsecured bank loan of \$42,325 funded through PPP, which was forgiven in September 2021.

NOTE 3 – PROPERTY

Property is comprised of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 44,440	\$ 44,440
Theatre building and improvements	553,863	539,241
Furniture and equipment	<u>190,214</u>	<u>186,680</u>
Total property, at cost	788,517	770,361
Accumulated depreciation	<u>(661,108)</u>	<u>(629,974)</u>
Property, net	<u>\$ 127,409</u>	<u>\$ 140,387</u>

NOTE 4 – NOTE PAYABLE

HITS has a note payable with a bank at interest rate of 5.00%. The principal and interest are due in monthly installments of \$1,771 with remaining principal and accrued interest due at the maturity date of November 21, 2026. The loan is collateralized by real property.

Future principal payments are due as follows:

2022	\$ 16,764
2023	17,621
2024	18,523
2025	19,471
2026	20,467
Thereafter	<u>3,534</u>
Total	<u>\$ 96,380</u>

Interest expense of \$5,700 was recognized in 2021 and \$5,035 was recognized in 2020.

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Future productions	\$ 15,516	\$ 35,332
Outreach and programming	<u> </u>	<u>24,766</u>
Total net assets with donor restrictions	<u>\$ 15,516</u>	<u>\$ 60,098</u>

NOTE 6 – IN-KIND CONTRIBUTIONS

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

	<u>2021</u>	<u>2020</u>
Contracted services	\$ 18,500	\$ 3,629
Facility and equipment rent	5,100	3,600
Printing and supplies	<u>973</u>	<u>4,165</u>
Total in-kind contributions	<u>\$ 24,573</u>	<u>\$ 11,394</u>

NOTE 7 – COMMITMENTS

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

2022	\$ 20,993
2023	<u>1,728</u>
Total	<u>\$ 22,721</u>

Rent expense of \$21,896 and \$27,593 was recognized in 2021 and 2020, respectively.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 2, 2022, 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.
