

HITS Theatre

Financial Statements
and Independent Accountants' Review Report
for the years ended September 30, 2022 and 2021

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, 2022 and 2021 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.

We are required to be independent of HITS Theatre and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

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.

DATE OPEN PENDING MANAGEMENT REVIEW AND APPROVAL

HITS TheatreStatements of Financial Position as of September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash	\$ 145,761	\$ 166,061
Contributions receivable	33,504	37,286
Prepaid expenses and other assets	17,300	12,404
Property, net (<i>Note 3</i>)	<u>115,487</u>	<u>127,409</u>
TOTAL ASSETS	<u>\$ 312,052</u>	<u>\$ 343,160</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 12,684	\$ 9,318
Deferred tuition and ticket sales revenue	46,128	41,984
Note payable (<i>Note 4</i>)	<u>79,623</u>	<u>96,380</u>
Total liabilities	<u>138,435</u>	<u>147,682</u>
Net assets:		
Without donor restrictions	150,311	179,962
With donor restrictions (<i>Note 5</i>)	<u>23,306</u>	<u>15,516</u>
Total net assets	<u>173,617</u>	<u>195,478</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 312,052</u>	<u>\$ 343,160</u>

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

HITS TheatreStatement of Activities for the year ended September 30, 2022

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Tuition, net of scholarships of \$27,217	\$ 303,834		\$ 303,834
Contributions:			
Contributed financial assets	66,952	\$ 133,377	200,329
Contributed nonfinancial assets (<i>Note 6</i>)	3,693		3,693
Ticket sales	51,250		51,250
Theatre rental	22,790		22,790
Other revenue	<u>7,850</u>		<u>7,850</u>
Total revenue	456,369	133,377	589,746
Net assets released from restrictions:			
Expended for scholarships and programs	<u>125,587</u>	<u>(125,587)</u>	
Total	<u>581,956</u>	<u>7,790</u>	<u>589,746</u>
EXPENSES:			
Program services	467,145		467,145
Management and general	117,323		117,323
Fundraising	<u>27,139</u>		<u>27,139</u>
Total expenses	<u>611,607</u>		<u>611,607</u>
CHANGES IN NET ASSETS	(29,651)	7,790	(21,861)
Net assets, beginning of year	<u>179,962</u>	<u>15,516</u>	<u>195,478</u>
Net assets, end of year	<u>\$ 150,311</u>	<u>\$ 23,306</u>	<u>\$ 173,617</u>

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

HITS TheatreStatement of Activities for the year ended September 30, 2021

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Tuition, net of scholarships of \$20,632	\$ 243,441		\$ 243,441
Contributions:			
Contributed financial assets	176,469	\$ 59,698	236,167
Contributed nonfinancial assets (<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>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>	
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>59,848</u>
Total expenses	<u>616,830</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 TheatreStatements of Functional Expenses for the years ended September 30, 2022 and 2021

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2022 TOTAL EXPENSES</u>
Salaries and related benefits	\$ 196,841	\$ 62,652	\$ 21,782	\$ 281,275
Contracted services	132,167	727		132,894
Production supplies	27,246			27,246
Utilities	15,952	5,800	659	22,411
Rent	21,099			21,099
Depreciation	18,592	1,446	620	20,658
Insurance	16,894	2,533	545	19,972
Professional fees	418	15,974		16,392
Repairs and maintenance	9,038	4,519	335	13,892
Bank fees		13,333		13,333
Information technology	7,816	4,413	928	13,157
Printing and postage	8,060	2,170	1,025	11,255
Other	<u>13,022</u>	<u>3,756</u>	<u>1,245</u>	<u>18,023</u>
Total expenses	<u>\$ 467,145</u>	<u>\$ 117,323</u>	<u>\$ 27,139</u>	<u>\$ 611,607</u>

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2021 TOTAL EXPENSES</u>
Salaries and related benefits	\$ 141,614	\$ 55,447	\$ 51,009	\$ 248,070
Contracted services	171,951	2,300	3,450	177,701
Production supplies	29,386			29,386
Utilities	10,472	4,434	679	15,585
Rent	21,728	168		21,896
Depreciation	28,021	2,179	934	31,134
Insurance	11,147	2,551	365	14,063
Professional fees		17,528		17,528
Repairs and maintenance	1,108	9,789		10,897
Bank fees		10,319		10,319
Information technology	739	12,460		13,199
Printing and postage	8,019	2,317	1,778	12,114
Other	<u>12,010</u>	<u>1,295</u>	<u>1,633</u>	<u>14,938</u>
Total expenses	<u>\$ 436,195</u>	<u>\$ 120,787</u>	<u>\$ 59,848</u>	<u>\$ 616,830</u>

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

HITS TheatreStatements of Cash Flows for the years ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (21,861)	\$ 15,066
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	20,658	31,134
Changes in operating assets and liabilities:		
Contributions receivable	3,782	39,176
Prepaid expenses and other assets	(4,896)	(10,026)
Accounts payable and accrued expenses	3,366	(6,015)
Deferred tuition and ticket sales revenue	4,144	35,551
Refundable advance	<u> </u>	<u>(42,500)</u>
Net cash provided by operating activities	<u>5,193</u>	<u>62,386</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(8,736)</u>	<u>(18,156)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note payable	<u>(16,757)</u>	<u>(15,925)</u>
NET CHANGE IN CASH	(20,300)	28,305
Cash, beginning of year	<u>166,061</u>	<u>137,756</u>
Cash, end of year	<u>\$ 145,761</u>	<u>\$ 166,061</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$4,495	\$5,700

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

HITS Theatre

Notes to Financial Statements for the years ended September 30, 2022 and 2021

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 approximately 1,400 theatre, voice, and dance students in 2022 and 1,125 in 2021.

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, 2022 are expected to be collected in one year. At September 30, 2022, 95% of HITS' total contributions receivable balance was from one donor. At September 30, 2021, 95% 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 and \$441 at September 30, 2021 and 2020, respectively. There was no accounts receivable from tuition at September 30, 2022. Deferred revenue were \$44,133, \$40,099 and \$6,433 at September 30, 2022, 2021, and 2020, 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.

Contributed nonfinancial assets – Donated materials and services are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor and 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. Deferred revenue from ticket sales were \$1,995 and \$1,885 at September 30, 2022 and 2021, respectively. There was no deferred revenue from ticket sales at September 30, 2020. There were no contract assets resulting from ticket sales at September 30, 2022, 2021, or 2020.

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>2022</u>	<u>2021</u>
Financial assets:		
Cash	\$ 145,761	\$ 166,061
Contributions receivable	33,504	37,286
Other assets	<u> </u>	<u>1,670</u>
Total financial assets	179,265	205,017
Less financial assets not available for general expenditure:		
Board-designated operating reserve fund	<u>(87,950)</u>	<u>(117,634)</u>
Total financial assets available for general expenditure	<u>\$ 91,315</u>	<u>\$ 87,383</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.

NOTE 3 – PROPERTY

Property is comprised of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 44,440	\$ 44,440
Theatre building and improvements	553,863	553,863
Furniture and equipment	<u>198,950</u>	<u>190,214</u>
Total property, at cost	797,253	788,517
Accumulated depreciation	<u>(681,766)</u>	<u>(661,108)</u>
Property, net	<u>\$ 115,487</u>	<u>\$ 127,409</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:

2023	\$ 17,621
2024	18,523
2025	19,471
2026	20,467
2027	<u>3,541</u>
Total	<u>\$ 79,623</u>

Interest expense of \$4,495 was recognized in 2022 and \$5,700 was recognized in 2021.

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Outreach and programming	\$ 23,306	
Future productions	<u> </u>	<u>\$ 15,516</u>
Total net assets with donor restrictions	<u>\$ 23,306</u>	<u>\$ 15,516</u>

NOTE 6 – CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets and associated expenditures were recognized as follows:

<u>CONTRIBUTED NONFINANCIAL ASSETS</u>	<u>UTILIZED IN PROGRAMS/ACTIVITIES</u>	<u>DONOR RESTRICTIONS</u>	<u>VALUATION TECHNIQUES AND INPUTS</u>	<u>2022 REVENUE RECOGNIZED</u>	<u>2021 REVENUE RECOGNIZED</u>
Facility rent	Storage and rehearsal	None	Fair value estimated using recent comparable rental rates for area.	\$ 3,600	\$ 5,100
Printing and supplies	Program activities	None	Fair value estimated based on comparable costs for similar items.	93	973
Contracted services	Production	None	Fair value estimated based on prevailing rates for similar services.		18,500
Total contributed nonfinancial assets				<u>\$ 3,693</u>	<u>\$ 24,573</u>

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through **DATE OPEN**, 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.