

HONOLULU THEATRE FOR YOUTH

FINANCIAL STATEMENTS

YEAR ENDED MAY 31, 2019

(With Independent Auditor's Report)

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Honolulu Theatre for Youth
Honolulu, Hawaii

We have audited the accompanying financial statements of Honolulu Theatre for Youth (a nonprofit corporation), which comprise the statements of financial position as of May 31, 2019, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's 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 the audit 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 auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Honolulu Theatre for Youth as of May 31, 2019, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Choo, Qaida & Lu, CPAs, Inc.

Honolulu, Hawaii
October 28, 2019

**HONOLULU THEATRE FOR YOUTH
STATEMENT OF FINANCIAL POSITION
YEAR ENDED MAY 31, 2019**

ASSETS

Cash and cash equivalents	\$ 540,551
Investments in marketable securities	127,095
Accounts receivable	31,052
Grants receivable	110,768
Costume inventory	25,000
Prepaid and deferred expenses	36,708
Property and equipment, net of accumulated depreciation and amortization	46,399
Deposits	<u>7,808</u>
Total assets	<u><u>\$ 925,381</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Obligations under capital lease	\$ 14,858
Accounts payable	20,115
Accrued liabilities	21,318
Deferred revenue	<u>90,248</u>
	<u>146,539</u>
Net assets	
Without donor restrictions	638,999
With donor restrictions	<u>139,843</u>
	<u>778,842</u>
Total liabilities and net assets	<u><u>\$ 925,381</u></u>

See accompanying notes.

**HONOLULU THEATRE FOR YOUTH
STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	\$ 140,742	333,268	474,010
Government grants	249,829	-	249,829
Contributed facilities	115,765	-	115,765
Admission revenue	559,168	-	559,168
Production revenue	166,383	-	166,383
Tuition revenue	147,146	-	147,146
Other revenue	14,508	-	14,508
Special events	170,156	-	170,156
Investment income	3,374	-	3,374
Net assets released from restrictions satisfied by usage	371,663	(371,663)	-
	<u>1,938,734</u>	<u>(38,395)</u>	<u>1,900,339</u>
Expenses and losses			
Program services	1,553,665	-	1,553,665
Management and general	151,545	-	151,545
Fundraising	125,916	-	125,916
Direct cost of special events	37,870	-	37,870
Total expenses	<u>1,868,996</u>	<u>-</u>	<u>1,868,996</u>
Net realized and unrealized loss on investments	588	-	588
	<u>1,869,584</u>	<u>-</u>	<u>1,869,584</u>
Increase in net assets	69,150	(38,395)	30,755
Net assets			
At beginning of year	<u>569,849</u>	<u>178,238</u>	<u>748,087</u>
At end of year	<u>\$ 638,999</u>	<u>139,843</u>	<u>778,842</u>

See accompanying notes.

**HONOLULU THEATRE FOR YOUTH
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MAY 31, 2019**

	Program Services	Administration	Fundraising	Direct Cost of Special Events	Total
Salaries and housing allowances	\$ 664,299	62,669	89,950	-	816,918
Employee benefits	117,386	17,428	19,163	-	153,977
Payroll taxes	49,554	8,368	4,963	-	62,885
Total salaries and related expenses	<u>831,239</u>	<u>88,465</u>	<u>114,076</u>	<u>-</u>	<u>1,033,780</u>
Fees for service	104,827	19,534	1,482	-	125,843
Advertising and promotion	44,239	374	150	-	44,763
Office expenses	30,177	4,453	2,757	-	37,387
Information technology	-	3,745	-	-	3,745
Royalties	12,016	-	-	-	12,016
Occupancy	104,143	6,966	5,000	-	116,109
Travel	83,444	650	24	-	84,118
Conference and meetings	416	3,933	177	-	4,526
Interest	-	853	-	-	853
Depreciation	13,974	8,156	-	-	22,130
Insurance	11,046	2,113	454	-	13,613
Production	309,621	-	-	-	309,621
Repairs and maintenance	1,213	8,737	-	-	9,950
Other	7,310	3,566	1,796	-	12,672
Special events	-	-	-	37,870	37,870
Total expenses	<u>\$ 1,553,665</u>	<u>151,545</u>	<u>125,916</u>	<u>37,870</u>	<u>1,868,996</u>

See accompanying notes.

**HONOLULU THEATRE FOR YOUTH
STATEMENT OF CASH FLOWS
YEAR ENDED MAY 31, 2019**

Cash flows from operating activities	
Increase in net assets	\$ 30,755
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation and amortization	22,130
Net realized and unrealized loss (gain) on investments	588
(Increase) decrease in:	
Accounts receivable	(20,806)
Contributions receivable	2,395
Grants receivable	(52,246)
Prepaid and deferred expenses	32
Increase (decrease) in:	
Accounts payable	(4,917)
Accrued liabilities	1,633
Deferred revenue	(3,646)
	<u>(24,082)</u>
Net cash used by operating activities	<u>(24,082)</u>
Cash flows from investing activities	
Proceeds from sale of investments	862
Purchases of investments	(7,488)
Purchases of property and equipment	(16,201)
	<u>(22,827)</u>
Net cash used by investing activities	<u>(22,827)</u>
Cash flows from financing activities	
Principal payments on capital lease	(7,604)
	<u>(7,604)</u>
Net cash used by financing activities	<u>(7,604)</u>
Net increase (decrease) in cash	(54,513)
Cash and cash equivalents at beginning of year	<u>595,064</u>
Cash and cash equivalents at end of year	<u><u>\$ 540,551</u></u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ 853

See accompanying notes.

**HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019**

**NOTE 1 – NATURE OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND
USE OF ESTIMATES**

Nature of organization

Honolulu Theatre for Youth (Theatre) is a nonprofit corporation organized under the laws of the State of Hawaii. It was organized to produce professional theatre and drama education programs that make a difference in the lives of young people, families and educators in the State of Hawaii.

The Theatre's primary sources of support and revenue are admission and production fees from theatrical performances, donations from corporations and individuals, grants from government agencies and charitable foundations, tuition from drama education programs, and proceeds from fundraising events.

Cash and cash equivalents

For purposes of the statement of cash flows, the Theatre considers all highly liquid debt instruments purchased with a maturity of three months or less and not included in the Theatre's investment portfolio to be cash equivalents.

Accounts receivable

The Theatre extends unsecured credit to certain customers, primarily schools in Hawaii.

Accounts receivable are recorded when admission fees have been earned for theatrical performances. Accounts receivable are written off when they are determined to be uncollectible. Allowances for doubtful accounts are based on management's assessment of customers' credit histories.

Investments in marketable securities

Investments in marketable securities consist of mutual funds and are stated at fair value.

Costume inventory

A fixed amount representing the aggregate cost of costume inventory on hand has been capitalized, and the cost of new costumes is expensed in the statement of activity. The difference between this method and the capitalization of new costumes and expensing of discarded costumes is not significant.

Property and equipment

Property and equipment is recorded at cost or fair value at date of donation and depreciated using the straight-line method over the estimated useful lives of the assets.

It is the Theatre's policy to capitalize property and equipment over \$600; lesser amounts are expensed.

Equipment under capital lease is stated at the lower of the present value of minimum lease payments or the fair value at the inception of the lease, and is amortized over the lesser of the lease term or the estimated useful life of the related asset.

Deferred revenue and expenses

Admission fees, tuition fees, and certain grant proceeds received in advance are deferred until earned.

Direct costs associated with future theatrical productions or education programs are deferred until productions or programs have occurred.

**HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2019**

**NOTE 1 – NATURE OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND
USE OF ESTIMATES - continued**

Contributions

Contributions are recorded as support with restrictions and without restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions.

Contributions receivable are recognized as support in the period in which an unconditional promise has been made by the donor.

Contributed facilities use has been recorded as support and corresponding expense in the statements of activities.

Donated services have not been recorded in the accompanying financial statements since these services do not meet the criteria for recognition. However, many individuals volunteer their time and perform a variety of tasks that assist the Theatre with various programs services and management efforts.

Functional allocation of expenses

The cost of providing program services and other supporting activities has been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising costs are expensed in the period in which they are incurred.

Income taxes

The Theatre is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code and is classified as an organization that is not a private foundation by the Internal Revenue Service; the Theatre is also exempt from state income taxes under Section 235 of the Hawaii Revised Statutes.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2019**

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in Hawaii banks.

NOTE 3 – FAIR VALUE MEASUREMENTS

The Financial Accounting Standards Board (FASB) has established a framework for measuring fair value in conformity with generally accepted accounting principles and for disclosures about fair value measurements. As a part of this framework, the FASB has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 - Observable inputs such as quoted prices in active markets;
- Level 2 - Inputs, other than quoted market prices in active markets, that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs in which there is little or no market data, and which require significant management judgment or estimation.

The Theatre uses appropriate valuation techniques based on available inputs to measure fair value. When available, the Theatre measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The Theatre recognizes transfers between the levels in the fair value hierarchy at the end of the reporting period.

At May 31, 2019, the fair value of financial assets that are measured on a recurring basis were as follows:

	<u>Level 1</u>
Investments in mutual funds	<u>\$ 127,095</u>

HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2019

NOTE 4 – ENDOWMENTS

The Theatre is subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Trustees has interpreted UPMIFA as requiring the Theatre to preserve the original gift of donor-restricted endowment funds as net assets with restrictions, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Theatre classifies as restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as restricted net assets until those amounts are appropriated for expenditure by the Theatre in a manner consistent with the standard of prudence prescribed by UPMIFA.

At May 31, 2019, the Theatre’s endowment consisted of two individual funds established to provide unrestricted support to the Theatre’s activities.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Theatre to retain as a fund of perpetual duration. At May 31, 2019, the fair value of invested assets assigned to individual donor restricted endowment net asset balances required to be maintained in perpetuity had a \$3,882 deficiency.

The Theatre, with the approval of the Board of Trustees, has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while also maintaining the long-term purchasing power of those assets. The Board of Trustees has also created a committee for the purpose of managing the endowment.

The Theatre has a policy of appropriating investment earnings for distribution.

At May 31, 2019, the composition of the endowment fund by net asset class was as follows:

With donor restrictions	<u><u>\$ 109,461</u></u>
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The following is a reconciliation of the changes in the endowments by net asset class for the year ended May 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Balances at June 1, 2018	\$ -	106,964	106,964
Investment income	-	3,085	3,085
Net realized and unrealized depreciation	-	(588)	(588)
Balances at May 31, 2019	\$ -	109,461	109,461

HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2019

NOTE 5 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Theatre’s financial assets available within one year of the balance sheet date for general expenditure. The assets have been reduced by amounts not available for general use because of donor-imposed restrictions. Amounts available include Board-approved appropriations from the endowment fund for the following year as well as donor-restricted amounts that are available for expenditure in the following year.

Cash and cash equivalents	\$ 540,551
Investments in marketable securities	127,095
Accounts receivable	31,052
Grants receivable	110,768
Costume inventory	25,000
Prepaid and deferred expenses	<u>36,708</u>
 Total financial assets	 871,174
 Donor imposed restrictions	
Cash and cash equivalents	(19,000)
Endowment fund investments	(113,343)
Grants receivable	(7,500)
Available for donor specified expenditures	<u>26,500</u>
	 <u><u>\$ 757,831</u></u>

NOTE 6 - PROPERTY AND EQUIPMENT

At May 31, 2019, property and equipment consisted of the following:

Furniture and equipment	\$ 186,397
Leasehold improvements	27,996
Auto and trucks	<u>5,000</u>
	219,393
Less accumulated depreciation and amortization	<u>172,994</u>
	 <u><u>\$ 46,399</u></u>

**HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2019**

NOTE 6 - PROPERTY AND EQUIPMENT - continued

Currently included in property and equipment are the following amounts related to capital leases:

Equipment	\$ 37,815
Less accumulated amortization	<u>23,949</u>
	<u>\$ 13,866</u>

Depreciation and amortization for the year ended May 31, 2019 included amortization of capital leases of approximately \$7,600.

NOTE 7 – LINE OF CREDIT

At May 31, 2019, the Theatre had a \$50,000 line of credit with a Hawaii bank. Drawings on the line bore interest at 2% above the bank’s prime rate (7.50% at May 31, 2019) and were secured by substantially all of the Theatre’s assets. There was no outstanding balance on the line of credit at May 31, 2019.

NOTE 8 – NET ASSETS

At May 31, 2019, net assets with donor restrictions were as follows:

Subsequent years' artistic programs	\$ 11,500
Subsequent years' production programs	15,000
Endowment fund investments to be held indefinitely, the income from which is expendable for unrestricted purposes	<u>113,343</u>
	<u>\$ 139,843</u>

HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2019

NOTE 9 – LEASES

The Theatre leases office and warehouse space under long-term, noncancelable operating leases which expire in 2020. The Theatre also leases equipment under a capital lease that expires in 2021.

At May 31, 2019, the future minimum lease payments under noncancelable operating and capital leases, and present value of the future minimum capital lease payments were as follows:

<u>Year ending May 31,</u>	<u>Capital Lease</u>	<u>Operating Leases</u>
2020	\$ 8,458	42,000
2021	7,048	13,000
2022		-
Total minimum payments required	15,506	<u>55,000</u>
Less amounts representing interest at 4.49%	<u>648</u>	
Obligation under capital lease	<u>\$ 14,858</u>	

Maturities of the obligation under capital lease for each of the five years succeeding May 31, 2019 are as follows:

<u>Year ending May 31,</u>	
2021	7,953
2022	6,905
2023	-
2024	-
2025	-

Rent expense for the year ended May 31, 2019 was comprised of the following:

Minimum rentals under noncancelable operating leases	\$ 41,538
Other	<u>31,497</u>
	<u>\$ 73,035</u>

**HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2019**

NOTE 9 – LEASES - continued

During the year ended May 31, 2019, the Theatre made use of theatre facilities provided by a Honolulu church. The agreement called for monthly utility and security payments based on actual usage effective March 15, 2012. For the year ended May 31, 2019, the fair value of the use of those facilities in excess of payments made was estimated at approximately \$116,000, and was reflected as support, and corresponding expense, in the accompanying statement of activities.

NOTE 10 – EMPLOYEE BENEFIT PLAN

Effective January 1, 2014, the Theatre established a defined contribution employee benefit plan (Plan) under Section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees, and an employee who is a member of the Plan may elect to contribute a portion of his or her salary to the Plan. For the year ended May 31, 2019, the Theatre did not make contributions to the Plan.

NOTE 11 – INCOME TAXES

The Theatre's Form 990, Return of Organization Exempt from Income Tax, for the years ended May 31, 2016 and forward are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

NOTE 12 – ADVERTISING EXPENSE

For the year ended May 31, 2019, advertising expense amounted to approximately \$44,000.

NOTE 13 – INTEREST EXPENSE

For the year ended May 31, 2019, interest expense amounted to approximately \$1,200.

NOTE 14 – SUBSEQUENT EVENT

The Theatre entered into a lease for new office premises beginning on July 1, 2020. Its current lease expires on June 30, 2020. Management expects significant savings over its current office premises lease. Costs associated with the new lease are not included in these financial statements dated May 31, 2019.

NOTE 15 – DATE OF MANAGEMENT'S REVIEW

Subsequent events have been evaluated through October 28, 2019, the date the financial statements were available to be issued.