

HONOLULU THEATRE FOR YOUTH

FINANCIAL STATEMENTS

YEAR ENDED MAY 31, 2020

(With Independent Auditor's Report)

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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, 2020, 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 audit. We conducted our audit 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, 2020, 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.

Report on Summarized Comparative Information

We have previously audited Honolulu Theatre for Youth's 2019 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 28, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Choo, Osada & Lee CPAs, Inc.

Honolulu, Hawaii
November 12, 2020

**HONOLULU THEATRE FOR YOUTH
STATEMENT OF FINANCIAL POSITION
YEARS ENDED MAY 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 770,191	540,551
Investments in marketable securities	138,557	127,095
Accounts, contributions and grants receivable	54,506	141,820
Costume inventory	25,000	25,000
Prepaid and deferred expenses	10,859	36,708
Property and equipment, net of accumulated depreciation and amortization	33,900	46,399
Deposits	<u>12,116</u>	<u>7,808</u>
Total assets	<u>\$ 1,045,129</u>	<u>925,381</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Obligations under capital lease	\$ 6,905	14,858
Accounts payable	7,497	20,115
Accrued liabilities	27,888	21,318
Notes payable	184,600	-
Deferred revenue	<u>12,386</u>	<u>90,248</u>
	<u>239,276</u>	<u>146,539</u>
Net assets		
Without donor restrictions	653,429	638,999
With donor restrictions	<u>152,424</u>	<u>139,843</u>
	<u>805,853</u>	<u>778,842</u>
Total liabilities and net assets	<u>\$ 1,045,129</u>	<u>925,381</u>

See accompanying notes.

HONOLULU THEATRE FOR YOUTH
STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2020 (With Comparative Totals for 2019)

	2020		2019	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue				
Contributions	\$ 191,583	321,040	512,623	474,010
Government grants	256,632	10,000	266,632	249,829
Contributed facilities and equipment	128,223	-	128,223	115,765
Admission revenue	478,357	-	478,357	559,168
Production revenue	207,403	-	207,403	166,383
Tuition revenue	118,196	-	118,196	147,146
Other revenue	3,881	-	3,881	14,508
Special events	142,810	-	142,810	170,156
Investment income	3,944	-	3,944	3,374
Net realized and unrealized gain on investments	1,989	-	1,989	-
Net assets released from restrictions satisfied by usage	318,459	(318,459)	-	-
	<u>1,851,477</u>	<u>12,581</u>	<u>1,864,058</u>	<u>1,900,339</u>
Expenses and losses				
Program services	1,505,479	-	1,505,479	1,553,665
Management and general	162,458	-	162,458	151,545
Fundraising	131,842	-	131,842	125,916
Direct cost of special events	37,268	-	37,268	37,870
Total expenses	<u>1,837,047</u>	<u>-</u>	<u>1,837,047</u>	<u>1,868,996</u>
Net realized and unrealized loss on investments	-	-	-	588
	<u>1,837,047</u>	<u>-</u>	<u>1,837,047</u>	<u>1,869,584</u>
Increase in net assets	14,430	12,581	27,011	30,755
Net assets				
At beginning of year	<u>638,999</u>	<u>139,843</u>	<u>778,842</u>	<u>748,087</u>
At end of year	<u>\$ 653,429</u>	<u>152,424</u>	<u>805,853</u>	<u>778,842</u>

See accompanying notes.

**HONOLULU THEATRE FOR YOUTH
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MAY 31, 2020 (With Comparative Totals for 2019)**

	2020			2019	
	Program Services	Administration	Fundraising	Direct Cost of Special Events	Total
Salaries and housing allowances	\$ 660,678	71,036	96,221	-	827,935
Employee benefits	114,320	17,760	19,339	-	151,419
Payroll taxes	49,328	9,693	5,099	-	64,120
Total salaries and related expenses	824,326	98,489	120,659	-	1,043,474
Fees for service	93,617	18,250	1,540	-	113,407
Advertising and promotion	45,902	169	-	-	46,071
Office expenses	22,858	3,119	1,945	-	27,922
Information technology	-	1,600	-	-	1,600
Royalties	9,884	-	-	-	9,884
Occupancy	108,237	7,985	5,187	-	121,409
Travel	73,054	936	75	-	74,065
Conference and meetings	-	3,795	30	-	3,825
Interest	-	717	-	-	717
Depreciation	12,589	7,898	-	-	20,487
Insurance	11,811	2,613	577	-	15,001
Production	297,775	-	-	-	297,775
Repairs and maintenance	-	7,741	-	-	7,741
Other	5,426	9,146	1,829	-	16,401
Special events	-	-	-	37,268	37,268
Total expenses	\$ 1,505,479	162,458	131,842	37,268	1,837,047
					1,868,996

See accompanying notes.

**HONOLULU THEATRE FOR YOUTH
STATEMENT OF CASH FLOWS
YEARS ENDED MAY 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Increase in net assets	\$ 27,011	30,755
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	20,488	22,130
Net realized and unrealized loss (gain) on investments	(1,989)	588
(Increase) decrease in:		
Accounts, contributions and grants receivable	87,314	(70,657)
Prepaid and deferred expenses	25,849	32
Deposits	(4,308)	-
Increase (decrease) in:		
Accounts payable	(12,618)	(4,917)
Accrued liabilities	6,570	1,633
Deferred revenue	(77,862)	(3,646)
Net cash provided (used) by operating activities	<u>70,455</u>	<u>(24,082)</u>
Cash flows from investing activities		
Proceeds from sale of investments	617	862
Purchases of investments	(10,090)	(7,488)
Purchases of property and equipment	(7,989)	(16,201)
Net cash used by investing activities	<u>(17,462)</u>	<u>(22,827)</u>
Cash flows from financing activities		
Proceeds from notes payable	184,600	-
Principal payments on capital lease	(7,953)	(7,604)
Net cash provided (used) by financing activities	<u>176,647</u>	<u>(7,604)</u>
Net increase (decrease) in cash	229,640	(54,513)
Cash and cash equivalents at beginning of year	<u>540,551</u>	<u>595,064</u>
Cash and cash equivalents at end of year	<u>\$ 770,191</u>	<u>540,551</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 505	853

See accompanying notes.

**HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020**

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, 2020**

**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 and equipment 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, 2020**

NOTE 2 – CASH AND CASH EQUIVALENTS

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

At May 31, 2020, deposits in excess of federally insured limits amounted to approximately \$220,000.

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, 2020, 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>\$ 138,557</u>

HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2020

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, 2020, 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, 2020, the fair value of invested assets assigned to individual donor restricted endowment net asset balances required to be maintained in perpetuity had no 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, 2020, the composition of the endowment fund by net asset class was as follows:

Without donor restrictions	\$ 5,273
With donor restrictions	<u>127,424</u>
	<u>\$ 132,697</u>

**HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2020**

NOTE 4 – ENDOWMENTS – continued

The following is a reconciliation of the changes in the endowments by net asset class for the year ended May 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Balances at June 1, 2019	\$ 5,066	122,029	127,095
Investment income	145	3,468	3,613
Net realized and unrealized appreciation	<u>62</u>	<u>1,927</u>	<u>1,989</u>
Balances at May 31, 2020	<u>\$ 5,273</u>	<u>127,424</u>	<u>132,697</u>

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	\$ 770,191
Investments in marketable securities	138,557
Accounts, contributions and grants receivable	54,506
Costume inventory	25,000
Prepaid and deferred expenses	<u>10,859</u>
Total financial assets	999,113
Donor imposed restrictions	
Endowment fund investments	<u>(113,343)</u>
	<u>\$ 885,770</u>

**HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2020**

NOTE 6 - PROPERTY AND EQUIPMENT

At May 31, 2020, property and equipment consisted of the following:

Furniture and equipment	\$ 194,385
Leasehold improvements	27,996
Auto and trucks	<u>5,000</u>
	227,381
Less accumulated depreciation and amortization	<u>193,481</u>
	<u>\$ 33,900</u>

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

Equipment	\$ 37,815
Less accumulated amortization	<u>31,513</u>
	<u>\$ 6,302</u>

Depreciation and amortization for the year ended May 31, 2020 included amortization of capital leases of approximately \$7,600.

NOTE 7 – LINE OF CREDIT

At May 31, 2020, 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 (5.25% at May 31, 2020) and were secured by substantially all of the Theatre's assets. There was no outstanding balance on the line of credit at May 31, 2020.

NOTE 8 – NOTES PAYABLE

At May 31, 2020, notes payable consisted of loan proceeds received under the Paycheck Protection Program (PPP). Established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), the PPP provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. Loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes. These purposes include payroll and related benefits, rent, and utilities. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the forgiveness period.

The unforgiven portion of the PPP loan is payable over two years at a 1% interest rate, with a deferral of payments for the first six months. The Theatre intends to use the proceeds for purposes consistent with the PPP. While the Theatre currently believes that its use of the loan proceeds will meet the conditions for loan forgiveness, it is not assured that the loan will be forgiven in part or in whole.

HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2020

NOTE 9 – LEASES

The Theatre leases office and warehouse space under long-term, noncancelable operating leases which expire in 2026. The Theatre also leases equipment under a capital lease that expires in 2021.

At May 31, 2020, 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>
2021	\$ 7,048	30,000
2022	-	30,000
2023	-	22,000
2024	-	10,000
2025	-	11,000
thereafter	-	1,000
	<hr/>	<hr/>
Total minimum payments required	7,048	<u>104,000</u>
Less amounts representing interest at 4.49%	<u>143</u>	
Obligation under capital lease	<u>\$ 6,905</u>	

Maturities of the obligation under capital lease for each of the five years succeeding May 31, 2020 are as follows:

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

Rent expense for the year ended May 31, 2020 was comprised of the following:

Minimum rentals under noncancelable operating leases	\$ 42,084
Other	<u>31,331</u>
	<u>\$ 73,415</u>

**HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2020**

NOTE 9 – LEASES - continued

During the year ended May 31, 2020, 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, 2020, the fair value of the use of those facilities in excess of payments made was estimated at approximately \$118,000, and was reflected as support, and corresponding expense, in the accompanying statement of activities.

NOTE 10 – NET ASSETS

At May 31, 2020, net assets with donor restrictions were as follows:

Subsequent years' artistic programs	\$ 25,000
Endowment fund investments to be held indefinitely, the income from which is expendable for unrestricted purposes	<u>127,424</u>
	<u>\$ 152,424</u>

NOTE 11 – 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, 2020, the Theatre did not make contributions to the Plan.

NOTE 12 – INCOME TAXES

The Theatre's Form 990, Return of Organization Exempt from Income Tax, for the years ended May 31, 2017 and forward are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

NOTE 13 – ADVERTISING EXPENSE

For the year ended May 31, 2020, advertising expense amounted to approximately \$46,000.

**HONOLULU THEATRE FOR YOUTH
NOTES TO FINANCIAL STATEMENTS - continued
MAY 31, 2020**

NOTE 14 - SUBSEQUENT EVENTS

Hawaii's state and county governments instituted stay-at-home orders in response to the COVID-19 pandemic. As directed, the Theatre suspended live performances and in person classes in favor of video productions. The global stock market volatility is also expected to cause a decline in the market value of its investment funds exposed to these conditions. The resulting uncertainties make potential financial impacts unknown.

NOTE 15 – DATE OF MANAGEMENT'S REVIEW

Subsequent events have been evaluated through November 12, 2020, the date the financial statements were available to be issued.