

HAWAII THEATRE CENTER

FINANCIAL STATEMENTS
As of and for the Year Ended May 31, 2016
With Prior Year Comparative Information
And Independent Auditor's Report



CW Associates

A Hawaii Certified Public Accounting Corporation



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INDEPENDENT AUDITOR'S REPORT

Hawaii Theatre Center:

Report on the Financial Statements

We have audited the accompanying financial statements of the Hawaii Theatre Center (Center), a nonprofit Hawaii corporation, which comprise the statement of financial position as of May 31, 2016, 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 preparation and fair presentation of an entity's 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 an 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 audit opinion.

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Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of May 31, 2016, 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 Prior Year Comparative Information

We have previously audited the Center's May 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
August 14, 2017

HAWAII THEATRE CENTER
STATEMENT OF FINANCIAL POSITION
As of May 31, 2016
(With Prior Year Comparative Information)

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 856,656	\$ 1,623,280
Pledges and accounts receivable – net	101,309	31,535
Investments – current	31,162	29,332
Prepaid expenses and other assets	157,332	136,768
Total current assets	<u>1,146,459</u>	<u>1,820,915</u>
NONCURRENT ASSETS		
Property and equipment – net	11,372,014	12,067,119
Rental property – net	3,582,553	3,560,450
Investments – noncurrent	93,289	114,479
Total noncurrent assets	<u>15,047,856</u>	<u>15,742,048</u>
TOTAL ASSETS	<u>\$16,194,315</u>	<u>\$17,562,963</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 245,949	\$ 180,177
Deferred revenue	157,403	125,817
Capital lease obligation – current	22,300	-
Total current liabilities	<u>425,652</u>	<u>305,994</u>
NONCURRENT LIABILITIES		
Liability for deferred compensation plan	93,289	114,479
Liability for lease security deposits	17,887	17,887
Capital lease obligation – noncurrent	115,991	-
Total noncurrent liabilities	<u>227,167</u>	<u>132,366</u>
TOTAL LIABILITIES	<u>652,819</u>	<u>438,360</u>
NET ASSETS		
Unrestricted		
Unrestricted – undesignated	568,670	1,394,172
Unrestricted – invested in property and equipment	11,233,723	12,067,119
Unrestricted – invested in rental property	3,582,553	3,560,450
Total unrestricted	<u>15,384,946</u>	<u>17,021,741</u>
Temporarily restricted	156,550	102,862
Total net assets	<u>15,541,496</u>	<u>17,124,603</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$16,194,315</u>	<u>\$17,562,963</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER

STATEMENT OF ACTIVITIES

For the Year Ended May 31, 2016
(With Prior Year Comparative Information)

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
HTC rentals and box office fees	\$ 602,468	\$ 370,808
Tickets and advertising revenue	505,804	483,717
Restoration surcharge	193,720	124,661
Membership and seat campaign	125,418	128,023
Special event - net	-	122,531
Net assets released from program restrictions	106,312	110,193
Rental property income -- net	101,974	111,876
Concession, merchandise, and other income	87,522	59,567
Education program fees	86,027	78,089
Grants and sponsorships	83,032	205,436
Unrestricted contributions and planned gifts	62,228	94,934
Investment income (loss) - net	(739)	11,191
Total revenue and support	<u>1,953,766</u>	<u>1,901,026</u>
Expenses		
Theatre operations	2,689,439	2,651,000
Fundraising	487,162	325,864
Management and general	413,960	291,326
Total expenses	<u>3,590,561</u>	<u>3,268,190</u>
Decrease in unrestricted net assets	<u>(1,636,795)</u>	<u>(1,367,164)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted grants and contributions	160,000	25,193
Net assets released from temporary restrictions	<u>(106,312)</u>	<u>(110,193)</u>
Increase (decrease) in temporarily restricted net assets	<u>53,688</u>	<u>(85,000)</u>
DECREASE IN NET ASSETS	(1,583,107)	(1,452,164)
NET ASSETS - Beginning of year	<u>17,124,603</u>	<u>18,576,767</u>
NET ASSETS - End of year	<u>\$15,541,496</u>	<u>\$17,124,603</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended May 31, 2016
(With Prior Year Comparative Information)

	Theatre Operations	Fund- Raising	Management and General	2016 Total	2015 Total
Salaries and related expenses					
Salaries and wages	\$ 577,427	\$159,332	\$154,646	\$ 891,405	\$ 747,231
Employee benefits	98,148	31,689	30,756	160,593	139,857
Payroll taxes	53,307	14,826	14,390	82,523	59,261
Salaries, wages, and benefits	728,882	205,847	199,792	1,134,521	946,349
Depreciation	799,681	44,427	44,426	888,534	870,610
Advertising and promotion	293,560	6,548	6,355	306,463	181,455
Production costs	246,477	-	-	246,477	272,982
Utilities	146,243	40,342	39,169	225,754	241,437
Repairs and maintenance	99,676	24,994	19,621	144,291	149,541
Professional and contract services	32,090	46,063	30,367	108,460	123,528
Education	106,312	-	-	106,312	86,129
License and fees	71,998	9,408	8,996	90,402	48,450
Travel and transportation	67,274	8,642	8,388	84,304	80,522
Insurance	26,805	27,678	26,863	81,346	80,251
Miscellaneous	5,379	54,532	15,553	75,464	43,208
Supplies and equipment	26,115	18,681	14,490	59,286	52,493
Cost of concession sales	38,947	-	-	38,947	26,303
Rent	-	-	-	-	64,932
Total expenses	<u>\$2,689,439</u>	<u>\$487,162</u>	<u>\$413,960</u>	<u>\$3,590,561</u>	<u>\$3,268,190</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER

STATEMENT OF CASH FLOWS

**For the Year Ended May 31, 2016
(With Prior Year Comparative Information)**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$(1,583,107)	\$(1,452,164)
Adjustments to reconcile decrease in net assets to net cash used by operating activities		
Depreciation of property and equipment	888,534	870,610
Depreciation of rental property	11,724	11,160
(Gain) loss on investments	3,066	(8,363)
(Increase) decrease in:		
Pledges and accounts receivable – net	(69,774)	121,695
Prepaid expenses and other assets	(20,564)	(85,542)
Increase (decrease) in:		
Accounts payable and accrued liabilities	65,772	(49,602)
Deferred revenue	31,586	88,327
Liability for deferred compensation plan	(21,190)	11,978
Net cash used by operating activities	<u>(693,953)</u>	<u>(491,901)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	17,396	-
Purchases of investments	(1,102)	(6,404)
Purchases of property and equipment	(38,429)	(204,532)
Purchases of rental property	(33,827)	-
Net cash used by investing activities	<u>(55,962)</u>	<u>(210,936)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(16,709)	-
Net cash used by financing activities	<u>(16,709)</u>	<u>-</u>
NET DECREASE IN CASH	(766,624)	(702,837)
CASH – Beginning of year	<u>1,623,280</u>	<u>2,326,117</u>
CASH – End of year	<u>\$ 856,656</u>	<u>\$ 1,623,280</u>
SUPPLEMENTAL INFORMATION		
Cash paid during the year for interest	\$ 5,345	\$ 261
Noncash investing and financing activity -- fixtures acquired in exchange for obligation under capital lease	\$ 155,000	\$ -

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended May 31, 2016
(With Prior Year Comparative Information)

NOTE A --SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The Hawaii Theatre Center (Center) was incorporated in the State of Hawaii as a non-profit corporation in April 1984. Its mission is to restore, renovate, and operate the Hawaii Theatre (Theatre) as a leading performance center in downtown Honolulu; to benefit the people of Hawaii and visitors to Honolulu by providing a broad range of entertainment, cultural, and educational experiences in a facility of recognized excellence; providing educational opportunities for Hawaii's young people; promoting the redevelopment of downtown Honolulu and stimulating its use in the evening and on weekends; and enhancing the quality of life in Honolulu. The Center presents the *Hawaii Theatre Center's Annual Fundraising Gala* special event from time-to-time to provide additional funding for its programs.

The Center is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to the Center are tax deductible.

Basis of Accounting

The Center reports its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets (none at May 31, 2016 and 2015). Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. Support is reported when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported when pledged as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. Revenue is recognized when earned, and expenses are recognized when the related liability is incurred. Advertising and promotion costs, amounting \$306,463 and \$181,455 for the years ended May 31, 2016 and 2015, respectively, are expensed the first time the advertising takes place.

The Center allocates its expenses on a functional basis among its various programs and supporting services based on estimates by management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Other expenses that are common to several functions are allocated by various bases.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by the Center. A substantial number of unpaid volunteers have made significant contributions of their time to the Center. The value of their time is not reflected in these financial statements because it does not meet the criteria for recognition.

NOTE A --SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with such 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 revenue and expenses during the reporting period. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near term.

Concentrations of Credit Risk

Financial instruments that potentially subject the Center to credit risk include cash, investments, and pledges and accounts receivable. Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$389,000 and \$570,000 at May 31, 2016 and 2015, respectively. Investments are fully insured by federal and private insurance, as represented by the custodian. Future changes in market prices may make the investments less valuable. Pledges and accounts receivable have been reduced by an estimated allowance for doubtful accounts of \$2,500 at May 31, 2016 and 2015. Pledges and accounts receivable are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts.

Investments

Investments consist of marketable securities stated at fair value. Net realized and unrealized gains and losses, determined using the specific identification method, are included in investment income (loss). Investments are classified as current or noncurrent depending upon their availability. Investments that are held for program purposes or other short-term purposes are classified as current. Investments that are held for the deferred compensation plan or other long-term purposes are classified as noncurrent.

Property and Equipment, and Rental Property

Property and equipment, and rental property, are stated at cost or, if contributed, at estimated fair market value at the date of contribution. Depreciation is provided using the straight-line method over estimated useful lives of 40 years for buildings and improvements, and 3 to 7 years for furniture and fixtures, and for equipment. Property and equipment, and rental property, are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Major improvements and expenditures for property and equipment in excess of \$500 and with useful lives over one year are capitalized. Repairs and maintenance are expensed as incurred.

Hawaii General Excise Tax

The State of Hawaii (State) imposes a general excise tax of 4% on the gross receipts of the Center from rental income and special events within the State, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. Hawaii general excise tax amounted to approximately \$26,500 and \$33,700 for the years ended May 31, 2016 and 2015, respectively.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management evaluated the Center's tax positions as of May 31, 2016 and 2015 and for the years then ended by reviewing its income tax returns and conferring with its tax advisors, and determined that the Center had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

NOTE B -- INVESTMENTS

At May 31, 2016 and 2015, investments consisted of the following:

	<u>2016</u>	<u>2015</u>
Mutual funds	\$ 93,289	\$ 114,479
Municipal bonds	<u>31,162</u>	<u>29,332</u>
Total investments	<u>\$ 124,451</u>	<u>\$ 143,811</u>

For the years ended May 31, 2016 and 2015, net investment income (loss) consisted of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 2,327	\$ 2,828
Gain (loss) on investments	<u>(3,066)</u>	<u>8,363</u>
Net investment income (loss)	<u>\$ (739)</u>	<u>\$ 11,191</u>

NOTE C -- FAIR VALUE MEASUREMENTS

The established framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation methodologies used to measure fair value. There are three levels of the fair value hierarchy. Level 1 inputs to the valuation methodologies consist of unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE C -- FAIR VALUE MEASUREMENTS (Continued)

At May 31, 2016 and 2015, the fair value measurements reportable by the Center consisted of investments in mutual funds and municipal bonds valued at quoted market prices, for which Level 1 valuation inputs were required. There were no investments for which Level 2 and 3 valuation inputs were required. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth by level, within the fair value hierarchy, the investments of the Center at fair value as of May 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Equity funds	\$ 69,327	\$ -	\$ -	\$ 69,327
Fixed income funds	14,006	-	-	14,006
Targeted allocated funds	9,956	-	-	9,956
Total mutual funds	93,289	-	-	93,289
Municipal bonds	31,162	-	-	31,162
Total investments at fair value	<u>\$124,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$124,451</u>

The following sets forth by level, within the fair value hierarchy, the investments of the Center at fair value as of May 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Equity funds	\$ 85,145	\$ -	\$ -	\$ 85,145
Fixed income funds	29,334	-	-	29,334
Total mutual funds	114,479	-	-	114,479
Municipal bonds	29,332	-	-	29,332
Total investments at fair value	<u>\$143,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$143,811</u>

NOTE D -- PROPERTY AND EQUIPMENT

At May 31, 2016 and 2015, property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 981,884	\$ 981,854
Buildings and improvements	22,291,280	22,291,280
Furniture and fixtures	4,367,509	4,212,509
Equipment	360,149	321,720
Construction in progress	4,303	4,303
Total	28,005,125	27,811,696
Accumulated depreciation	<u>(16,633,111)</u>	<u>(15,744,577)</u>
Property and equipment -- net	<u>\$11,372,014</u>	<u>\$12,067,119</u>

NOTE E -- RENTAL PROPERTY

At May 31, 2016 and 2015, rental property consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$3,476,044	\$3,476,044
Building	<u>379,782</u>	<u>345,955</u>
Total	3,855,826	3,821,999
Accumulated depreciation	<u>(273,273)</u>	<u>(261,549)</u>
 Rental property -- net	 <u>\$3,582,553</u>	 <u>\$3,560,450</u>

NOTE F -- RENTAL OPERATIONS

The Center uses a professional property manager to lease property adjacent to the Theatre to commercial tenants under operating leases expiring at various dates through August 2019. At May 31, 2016, future minimum lease rent receipts approximated the following:

Years Ending May 31st:	
2017	\$ 306,300
2018	\$ 360,000
2019	\$ 360,000
2020	\$ 90,000

Lease rent income and recoveries of costs and related lease rent expenses for the years ended May 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Rental income:		
Rental income	\$144,059	\$150,361
Operating expense recoveries	58,099	70,189
Hawaii general excise tax recoveries	9,242	10,899
Other cost recoveries	<u>19,754</u>	<u>9,730</u>
Total rental income	<u>231,154</u>	<u>241,179</u>
Rental expenses:		
Real property tax	26,839	26,280
Management fees	25,589	25,648
Utilities	12,784	14,043
Depreciation	11,724	11,160
Repairs and maintenance	10,320	13,889
Hawaii general excise tax	9,485	10,841
Insurance	6,015	5,671
Other cost and expenses	<u>26,424</u>	<u>21,771</u>
Total rental expenses	<u>129,180</u>	<u>129,303</u>
 Rental property income -- net	 <u>\$101,974</u>	 <u>\$111,876</u>

NOTE G -- TEMPORARILY RESTRICTED NET ASSETS

At May 31, 2016 and 2015, temporarily restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Temporarily restricted for:		
Organ restoration	\$ 102,862	\$ 102,862
Educational programming	<u>53,688</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 156,550</u>	<u>\$ 102,862</u>

NOTE H -- SPECIAL EVENT

For the year ended May 31, 2015, revenue and expenses for the special event consisted of the following:

	<u>2015</u>
Revenue	
Table sales	\$ 117,500
Auction	34,492
Donations	<u>25,960</u>
Total revenue	<u>177,952</u>
Direct Expenses	
Costs of direct benefits to donors	49,706
General excise tax	<u>5,715</u>
Total direct expenses	<u>55,421</u>
Special event – net	<u>\$ 122,531</u>

There was no special event during the year ended May 31, 2016.

NOTE I -- EMPLOYEE BENEFIT PLANS

The Center sponsors a defined contribution, salary reduction retirement plan covering substantially all of its employees, to which it may make discretionary contributions up to the maximum allowed under Internal Revenue Code Section 403(b). The Center's contributions to this plan amounted to \$2,250 and \$28,100 for the years ended May 31, 2016 and 2015, respectively.

The Center also sponsors a defined contribution, deferred compensation plan under Section 457(b) of the Internal Revenue Code that covers certain key employees. Eligibility is determined by the Center's Board of Directors. The Center's contributions to this plan, determined annually by its Board of Directors, amounted to \$0 and \$5,154 for the years ended May 31, 2016 and 2015, respectively. The assets and liabilities of the Center included \$93,289 and \$114,479 related to the deferred compensation plan at May 31, 2016 and 2015, respectively.

NOTE J -- COMMITMENTS

Leases

During the year ended May 31, 2016, the Center began leasing the theatre marquee under a capital lease agreement expiring in October 2020. At May 31, 2016, the cost of the marquee and related accumulated depreciation amounted to \$155,000 and \$9,042, respectively. At May 31, 2016, future minimum capital lease payments and the present value of future minimum capital lease payments were as follows:

Years Ending May 31st	
2017	\$ 33,677
2018	33,677
2019	33,677
2020	33,677
2021	<u>37,533</u>
Total future minimum lease payments	172,241
Amount representing interest imputed at 8.90%	<u>(33,950)</u>
Present value of future minimum capital lease payments	138,291
Capital lease obligations -- current	<u>(22,300)</u>
Capital lease obligations -- noncurrent	<u>\$115,991</u>

The Center leased office space from others under an operating lease that expired in February 2015 and in March 2015, the Center moved its administrative staff and operations to the Theatre. Lease rent expense, including maintenance fees for the operating lease, amounted to \$64,932 for the year ended May 31, 2015.

Power Purchase Agreement

The Center is party to a Solar Power Purchase and Sales and Use Agreement (Agreement) that provides for the Center to purchase 100% of the energy output from a solar energy facility installed, operated, and maintained within the premises of Hawaii Theatre. The Agreement bears an initial rate of \$0.22/kWh, with an annual escalation rate of 3% for 20 years following the commercial operation date of the system (April 23, 2013). The Center has an option to extend the term of the Agreement for an additional ten years. The Agreement is subject to early termination by the Center for a fee, and may be purchased by the Center at the end of the term for fair market value. Utility charges under the Agreement for electrical energy amounted to \$29,268 and \$31,661 for the years ended May 31, 2016 and 2015, respectively.

NOTE K -- CONTINGENCIES

The Center may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve such matters, if any, would not be material to the financial statements. However, it is at least reasonably possible that such estimates may change within the near term.

The Center operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii due to its geographic location. The effects on the financial statements of the Center from such changes in economic conditions, if any, are not presently determinable.

NOTE L -- LIQUIDITY

The Center incurred substantial decreases in cash, net assets, and grant revenue during the years ended May 31, 2016 and 2015. To address this condition, the Center will focus on education programs, benefit concerts, film programming, and other licensed use events. Management believes these efforts will increase revenue and reduce expenses to improve the financial condition of the Center to serve its mission.

NOTE M -- FINANCIAL STATEMENT PRESENTATION

The financial statements include prior year comparative information that is not in sufficient detail to constitute a complete presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements as of and for the year ended May 31, 2015, from which the information was derived.

Certain amounts in the prior year comparative information have been reclassified to conform to the current year presentation.

NOTE N -- SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued, and determined the Center did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements.
