

HAWAII THEATRE CENTER

FINANCIAL STATEMENTS

**As of and for the Year Ended May 31, 2015
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, 2015, 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, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Prior Year Comparative Information

The financial statements of the Center as of and for the year ended May 31, 2014, were audited by another auditor who expressed an unmodified opinion on those audited financial statements in their report dated October 20, 2014. In our opinion, the accompanying prior year comparative information is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
April 11, 2016

HAWAII THEATRE CENTER
STATEMENT OF FINANCIAL POSITION
As of May 31, 2015
(With Prior Year Comparative Information)

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 1,623,280	\$ 2,326,117
Pledges and accounts receivable -- net	31,535	153,230
Investments -- current	29,332	26,543
Prepaid expenses and other assets	136,768	51,226
Total current assets	<u>1,820,915</u>	<u>2,557,116</u>
PROPERTY AND EQUIPMENT -- Net	<u>12,067,119</u>	<u>12,733,197</u>
RENTAL PROPERTY -- Net	<u>3,560,450</u>	<u>3,571,610</u>
INVESTMENTS -- Noncurrent	<u>114,479</u>	<u>102,501</u>
TOTAL ASSETS	<u>\$17,562,963</u>	<u>\$18,964,424</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 180,177	\$ 229,779
Deferred revenue	125,817	37,490
Total current liabilities	<u>305,994</u>	<u>267,269</u>
LIABILITY FOR DEFERRED COMPENSATION PLAN	<u>114,479</u>	<u>102,501</u>
LIABILITY FOR LEASE SECURITY DEPOSITS	<u>17,887</u>	<u>17,887</u>
TOTAL LIABILITIES	<u>438,360</u>	<u>387,657</u>
NET ASSETS		
Unrestricted		
Unrestricted -- undesignated	1,394,172	2,084,098
Unrestricted -- invested in property and equipment	12,067,119	12,733,197
Unrestricted -- invested in rental property	3,560,450	3,571,610
Total unrestricted	<u>17,021,741</u>	<u>18,388,905</u>
Temporarily restricted	102,862	187,862
Total net assets	<u>17,124,603</u>	<u>18,576,767</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$17,562,963</u>	<u>\$18,964,424</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER
STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2015
(With Prior Year Comparative Information)

	<u>2015</u>	<u>2014</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Tickets and advertising revenue	\$ 483,717	\$ 400,711
HTC rentals and box office fees	370,808	398,583
Grants and sponsorships	205,436	306,174
Membership and seat campaign	128,023	130,675
Restoration surcharge	124,661	140,358
Special event – net	122,531	154,540
Rental property income – net	111,876	17,641
Net assets released from program restrictions	110,193	29,750
Unrestricted contributions and planned gifts	94,934	74,253
Education program fees	78,089	58,048
Concession, merchandise, and other income	59,567	55,769
Net investment income	11,191	3,380
Total revenue and support	<u>1,901,026</u>	<u>1,769,882</u>
Expenses		
Theatre operations	2,651,000	2,387,859
Fundraising	325,864	329,226
Management and general	291,326	262,751
Total expenses	<u>3,268,190</u>	<u>2,979,836</u>
Revenue and support less expenses	(1,367,164)	(1,209,954)
Net assets released from capital restrictions	-	1,055,139
Decrease in unrestricted net assets	<u>(1,367,164)</u>	<u>(154,815)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted grants and contributions	25,193	10,000
Net assets released from temporary restrictions	<u>(110,193)</u>	<u>(1,084,889)</u>
Decrease in temporarily restricted net assets	<u>(85,000)</u>	<u>(1,074,889)</u>
DECREASE IN NET ASSETS	(1,452,164)	(1,229,704)
NET ASSETS – Beginning of year	<u>18,576,767</u>	<u>19,806,471</u>
NET ASSETS – End of year	<u>\$17,124,603</u>	<u>\$18,576,767</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended May 31, 2015
(With Prior Year Comparative Information)

	Theatre Operations	Fund- Raising	Management and General	2015 Total	2014 Total
Salaries, wages, and benefits	\$ 717,286	\$116,241	\$112,822	\$ 946,349	\$ 957,425
Depreciation	783,550	43,530	43,530	870,610	829,402
Production costs	272,982	-	-	272,982	200,439
Utilities	184,240	29,021	28,176	241,437	236,038
Advertising and promotion	169,460	6,210	5,785	181,455	130,819
Repairs and maintenance	115,704	20,208	13,629	149,541	90,685
Professional and contract services	40,703	46,600	36,225	123,528	129,977
Education	86,129	-	-	86,129	57,798
Travel and transportation	63,815	8,478	8,229	80,522	35,671
Insurance	73,922	3,212	3,117	80,251	72,561
Rent	49,549	7,805	7,578	64,932	77,990
Supplies and equipment	16,573	23,492	12,428	52,493	32,430
License and fees	40,374	5,990	2,086	48,450	41,297
Miscellaneous	10,410	15,077	17,221	43,208	71,569
Cost of concession sales	26,303	-	-	26,303	15,735
Total expenses	<u>\$2,651,000</u>	<u>\$325,864</u>	<u>\$291,326</u>	<u>\$3,268,190</u>	<u>\$2,979,836</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER
STATEMENT OF CASH FLOWS
For the Year Ended May 31, 2015
(With Prior Year Comparative Information)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$(1,452,164)	\$(1,229,704)
Adjustments to reconcile decrease in net assets to net cash used by operating activities		
Depreciation of property and equipment	870,610	829,402
Depreciation of rental property	11,160	11,160
(Gain) loss on investments	(8,363)	1,084
(Increase) decrease in:		
Pledges and accounts receivable -- net	121,695	261,104
Prepaid expenses and other assets	(85,542)	79,225
Increase (decrease) in:		
Accounts payable and accrued liabilities	(49,602)	(4,054)
Deferred revenue	88,327	(7,977)
Liability for deferred compensation plan	11,978	12,000
Net cash used by operating activities	<u>(491,901)</u>	<u>(47,760)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of certificate of deposit	-	728,822
Purchases of investments	(6,404)	(12,000)
Purchases of property and equipment	(204,532)	(354,339)
Increase in liability for lease security deposits	-	4,159
Net cash provided (used) by investing activities	<u>(210,936)</u>	<u>366,642</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable	-	(728,822)
Net cash used by financing activities	<u>-</u>	<u>(728,822)</u>
NET DECREASE IN CASH	(702,837)	(409,940)
CASH -- Beginning of year	<u>2,326,117</u>	<u>2,736,057</u>
CASH -- End of year	<u>\$ 1,623,280</u>	<u>\$ 2,326,117</u>
SUPPLEMENTAL INFORMATION		
Cash paid during the year for interest	\$ 261	\$ 7,051

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended May 31, 2015
(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 in May of each year 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, 2015 and 2014). 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 \$181,455 and \$130,819 for the years ended May 31, 2015 and 2014, respectively, are expensed the first time the advertising takes place.

The Center allocates its expenses on a functional basis among their 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, marketable securities, and pledges and accounts receivable. Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$570,000 and \$1,425,000 at May 31, 2015 and 2014, respectively. Marketable securities 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, 2015 and 2014. 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. 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 to \$33,000 and \$39,000 for the years ended May 31, 2015 and 2014, 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, 2015 and 2014 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. With few exceptions, the Center is no longer subject to examination by taxing authorities for the tax years ended on or before May 31, 2011, due to the expiration of the statutes of limitations.

NOTE B – INVESTMENTS

At May 31, 2015 and 2014, investments consisted of the following:

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 114,479	\$ 102,501
Municipal bonds	<u>29,332</u>	<u>26,543</u>
Total investments	<u>\$ 143,811</u>	<u>\$ 129,044</u>

For the years ended May 31, 2015 and 2014, investment income consisted of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 2,828	\$ 4,464
Unrealized gains (losses) from holding investments	<u>8,363</u>	<u>(1,084)</u>
Net investment income	<u>\$ 11,191</u>	<u>\$ 3,380</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, 2015 and 2014, 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, 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>

The following sets forth by level, within the fair value hierarchy, the investments of the Center at fair value as of May 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Equity funds	\$ 73,630	\$ -	\$ -	\$ 73,630
Fixed income funds	28,871	-	-	28,871
Total mutual funds	102,501	-	-	102,501
Municipal bonds	26,543	-	-	26,543
Total investments at fair value	<u>\$129,044</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$129,044</u>

NOTE D -- PROPERTY AND EQUIPMENT

At May 31, 2015 and 2014, property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 981,884	\$ 981,884
Buildings and improvements	22,291,280	22,262,377
Furniture and fixtures	4,212,509	4,021,871
Equipment	321,720	312,129
Construction in progress	4,303	28,903
Total	<u>27,811,696</u>	<u>27,607,164</u>
Accumulated depreciation	<u>(15,744,577)</u>	<u>(14,873,967)</u>
Property and equipment -- net	<u>\$12,067,119</u>	<u>\$12,733,197</u>

NOTE E -- RENTAL PROPERTY

At May 31, 2015 and 2014, rental property consisted of the following:

	<u>2015</u>	<u>2014</u>
Land	\$3,476,044	\$3,476,044
Building	345,955	345,955
Total	<u>3,821,999</u>	<u>3,821,999</u>
Accumulated depreciation	<u>(261,549)</u>	<u>(250,389)</u>
Rental property -- net	<u>\$3,560,450</u>	<u>\$3,571,610</u>

NOTE F -- TEMPORARILY RESTRICTED NET ASSETS

At May 31, 2015 and 2014, temporarily restricted net assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Temporarily restricted for:		
Organ restoration	\$102,862	\$102,862
LED lighting installation	-	75,000
Educational programming	-	10,000
Total temporarily restricted net assets	<u>\$102,862</u>	<u>\$187,862</u>

NOTE G -- SPECIAL EVENT

For the years ended May 31, 2015 and 2014, revenue and expenses for the special event consisted of the following:

	<u>2015</u>	<u>2014</u>
Revenue		
Table sales	\$117,500	\$129,500
Auction	34,492	46,786
Donations	25,960	24,210
Total revenue	<u>177,952</u>	<u>200,496</u>
Direct Expenses		
Costs of direct benefits to donors	49,706	37,981
General excise tax	5,715	7,975
Total direct expenses	<u>55,421</u>	<u>45,956</u>
Special event -- net	<u>\$122,531</u>	<u>\$154,540</u>

NOTE H -- 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 \$28,100 and \$21,300 for the years ended May 31, 2015 and 2014, 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 \$5,154 and \$12,000 for the years ended May 31, 2015 and 2014, respectively. The assets and liabilities of the Center included \$114,479 and \$102,501 related to the deferred compensation plan at May 31, 2015 and 2014, respectively.

NOTE I -- COMMITMENTS

Leases

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 October 2016 (see Note E). Rental income amounted to \$241,179 and \$136,427 for the years ended May 31, 2015 and 2014, respectively. Rental expenses amounted to \$129,303 and \$118,786 for the years ended May 31, 2015 and 2014, respectively, including depreciation of \$11,160 for the years ended May 31, 2015 and 2014. At May 31, 2015, future minimum lease rent receipts by years ending May 31st approximated \$130,300 in 2016 and \$35,700 in 2017.

The Center leased office space from others under an operating lease that expired in February 2015. Lease rent expense, including maintenance fees for the operating lease, amounted to \$64,932 and \$77,990 for the years ended May 31, 2015 and 2014, respectively.

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 \$31,661 and \$12,557 for the years ended May 31, 2015 and 2014, respectively.

NOTE J -- 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 K -- FINANCIAL STATEMENT PRESENTATION

The financial statements include prior year comparative information that is not in sufficient detail to constitute a complete presentation in conformity 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, 2014, 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 L -- 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.
