

HAWAII THEATRE CENTER

FINANCIAL STATEMENTS
As of and for the Year Ended May 31, 2018
With Prior Year Comparative Information
And Independent Auditor's Report



CW Associates

A Hawaii Certified Public Accounting Corporation

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, 2018, 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.

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, 2018, 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, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our reported dated March 25, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
August 12, 2019

HAWAII THEATRE CENTER
STATEMENT OF FINANCIAL POSITION
As of May 31, 2018
(With Prior Year Comparative Information)

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 475,531	\$ 641,982
Pledges and accounts receivable – net	119,917	114,597
Investments – current	31,549	31,676
Prepaid expenses and other assets	87,603	125,789
Total current assets	<u>714,600</u>	<u>914,044</u>
NONCURRENT ASSETS		
Property and equipment – net	9,854,961	10,772,502
Rental property – net	3,556,850	3,569,702
Investments – noncurrent	106,517	100,540
Total noncurrent assets	<u>13,518,328</u>	<u>14,442,744</u>
TOTAL ASSETS	<u>\$ 14,232,928</u>	<u>\$ 15,356,788</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 322,305	\$ 276,959
Deferred revenue	364,614	115,547
Capital lease obligation – current	26,600	24,300
Total current liabilities	<u>713,519</u>	<u>416,806</u>
NONCURRENT LIABILITIES		
Liability for deferred compensation plan	106,517	100,540
Liability for lease security deposits	19,212	4,306
Capital lease obligation – noncurrent	65,101	91,728
Total noncurrent liabilities	<u>190,830</u>	<u>196,574</u>
TOTAL LIABILITIES	<u>904,349</u>	<u>613,380</u>
NET ASSETS		
Unrestricted		
Unrestricted – undesignated	(119,393)	394,370
Unrestricted – invested in property and equipment	9,763,260	10,656,474
Unrestricted – invested in rental property	3,556,850	3,569,702
Total unrestricted	<u>13,200,717</u>	<u>14,620,546</u>
Temporarily restricted	127,862	122,862
Total net assets	<u>13,328,579</u>	<u>14,743,408</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,232,928</u>	<u>\$ 15,356,788</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER
STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2018
(With Prior Year Comparative Information)

	<u>2018</u>	<u>2017</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
HTC rentals and box office fees	\$ 454,717	\$ 859,719
Tickets and advertising revenue	205,289	148,702
Restoration surcharge	147,257	175,442
Net assets released from program restrictions	134,240	107,697
Concession, merchandise, and other income	101,602	105,767
Membership and seat campaign	93,550	105,953
Education program fees	68,564	85,438
Unrestricted contributions and planned gifts	59,582	66,961
Grants and sponsorships	43,919	380,392
Investment income – net	10,954	11,823
Special event – net	3,121	34,969
Rental property loss – net	(55,507)	(27,056)
Total revenue and support	<u>1,267,288</u>	<u>2,055,807</u>
Expenses		
Theatre operations	1,999,950	2,113,679
Fundraising	325,790	355,267
Management and general	361,377	351,261
Total expenses	<u>2,687,117</u>	<u>2,820,207</u>
Decrease in unrestricted net assets	<u>(1,419,829)</u>	<u>(764,400)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted grants and contributions	139,240	74,009
Net assets released from temporary restrictions	(134,240)	(107,697)
Increase (decrease) in temporarily restricted net assets	<u>5,000</u>	<u>(33,688)</u>
DECREASE IN NET ASSETS	(1,414,829)	(798,088)
NET ASSETS – Beginning of year	<u>14,743,408</u>	<u>15,541,496</u>
NET ASSETS – End of year	<u>\$13,328,579</u>	<u>\$14,743,408</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended May 31, 2018
(With Prior Year Comparative Information)

	<u>Theatre</u> <u>Operations</u>	<u>Fund-</u> <u>Raising</u>	<u>Management</u> <u>and</u> <u>General</u>	<u>2018</u> <u>Total</u>	<u>2017</u> <u>Total</u>
Salaries and related expenses					
Salaries and wages	\$ 369,524	\$105,892	\$102,778	\$ 578,194	\$ 646,441
Employee benefits	64,686	18,971	18,413	102,070	106,950
Payroll taxes	34,534	9,480	9,767	53,781	59,515
Salaries, wages, and benefits	<u>468,744</u>	<u>134,343</u>	<u>130,958</u>	<u>734,045</u>	<u>812,906</u>
Depreciation	836,126	46,451	46,452	929,029	901,225
Utilities	139,971	40,101	38,940	219,012	215,968
Production costs	178,813	-	-	178,813	127,500
Repairs and maintenance	78,101	23,026	22,355	123,482	80,485
Education program	99,658	-	-	99,658	76,484
Professional and contract services	23,271	22,680	48,954	94,905	102,589
Insurance	24,856	25,610	24,856	75,322	75,111
Advertising and promotion	59,571	3,400	3,300	66,271	116,557
License and fees	25,588	7,400	7,183	40,171	90,884
Supplies and equipment	13,574	7,037	6,831	27,442	39,090
Cost of concession sales	24,519	-	-	24,519	55,189
Bad debt	-	-	-	-	23,000
Development	-	175	13,830	14,005	22,444
Travel and transportation	12,825	472	458	13,755	14,682
Rent	5,140	1,473	1,430	8,043	11,227
Miscellaneous	<u>9,193</u>	<u>13,622</u>	<u>15,830</u>	<u>38,645</u>	<u>54,866</u>
Total expenses	<u>\$1,999,950</u>	<u>\$325,790</u>	<u>\$361,377</u>	<u>\$2,687,117</u>	<u>\$2,820,207</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER
STATEMENT OF CASH FLOWS
For the Year Ended May 31, 2018
(With Prior Year Comparative Information)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$(1,414,829)	\$ (798,088)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities		
Depreciation of property and equipment	929,029	901,225
Depreciation of rental property	12,852	12,851
Gain on investments	(9,437)	(10,281)
(Increase) decrease in		
Pledges and accounts receivable – net	(5,320)	(13,288)
Prepaid expenses and other assets	38,186	31,543
Increase (decrease) in		
Accounts payable and accrued liabilities	45,346	31,010
Deferred revenue	249,067	(41,856)
Liability for deferred compensation plan	5,977	7,251
Net cash provided (used) by operating activities	<u>(149,129)</u>	<u>120,367</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	4,667	3,619
Purchases of investments	(1,080)	(1,103)
Purchases of property and equipment	(11,488)	(301,713)
Increase (decrease) in liability for lease security deposits	14,906	(13,581)
Net cash provided (used) by investing activities	<u>7,005</u>	<u>(312,778)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(24,327)	(22,263)
Net cash used by financing activities	<u>(24,327)</u>	<u>(22,263)</u>
NET DECREASE IN CASH	(166,451)	(214,674)
CASH – Beginning of year	<u>641,982</u>	<u>856,656</u>
CASH – End of year	<u>\$ 475,531</u>	<u>\$ 641,982</u>
SUPPLEMENTAL INFORMATION		
Cash paid during the year for interest	\$ 9,350	\$ 11,486

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended May 31, 2018
(With Prior Year Comparative Information)

NOTE A –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

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, 2018 and 2017). 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 to \$66,271 and \$116,557 for the years ended May 31, 2018 and 2017, respectively, are expensed the first time the advertising takes place.

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

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2018
(With Prior Year Comparative Information)**

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 \$7,000 and \$225,600 at May 31, 2018 and 2017, 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 allowances for doubtful accounts of \$25,500 at May 31, 2018 and 2017. 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 three to seven 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 THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2018
(With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$11,500 and \$35,600 for the years ended May 31, 2018 and 2017, respectively.

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, 2018 and 2017 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, 2018 and 2017, investments consisted of the following:

	<u>2018</u>	<u>2017</u>
Mutual funds	\$106,517	\$100,540
Municipal bonds	<u>31,549</u>	<u>31,676</u>
Total investments	<u>\$138,066</u>	<u>\$132,216</u>

For the years ended May 31, 2018 and 2017, net investment income consisted of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 1,692	\$ 1,692
Unrealized gain on investments	9,437	10,281
Investment fees	<u>(175)</u>	<u>(150)</u>
Investment income – net	<u>\$10,954</u>	<u>\$11,823</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2018
(With Prior Year Comparative Information)**

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. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. 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.

At May 31, 2018 and 2017, the fair value measurements reportable by the Center consisted of investments in mutual funds valued at quoted market prices for which Level 1 valuation inputs were required; and municipal bonds valued at the discounted value of their future cash flows for which Level 2 valuation inputs were required. There were no investments for which Level 3 valuation inputs were required.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center believes its valuation methods are appropriate and consistent with other market participants, 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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds	\$ 82,080	\$ -	\$ -	\$ 82,080
Fixed income funds	13,683	-	-	13,683
Targeted allocated funds	<u>10,754</u>	-	-	<u>10,754</u>
Total mutual funds	106,517	-	-	106,517
Municipal bonds	<u>-</u>	<u>31,549</u>	-	<u>31,549</u>
Total investments at fair value	<u>\$106,517</u>	<u>\$31,549</u>	<u>\$ -</u>	<u>\$138,066</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2018
(With Prior Year Comparative Information)**

NOTE C – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, the investments of the Center at fair value as of May 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds	\$ 75,770	\$ -	\$ -	\$ 75,770
Fixed income funds	13,850	-	-	13,850
Targeted allocated funds	10,920	-	-	10,920
Total mutual funds	<u>100,540</u>	<u>-</u>	<u>-</u>	<u>100,540</u>
Municipal bonds	<u>-</u>	<u>31,676</u>	<u>-</u>	<u>31,676</u>
Total investments at fair value	<u>\$100,540</u>	<u>\$31,676</u>	<u>\$ -</u>	<u>\$132,216</u>

NOTE D – PROPERTY AND EQUIPMENT

At May 31, 2018 and 2017, property and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 981,884	\$ 981,884
Buildings and improvements	22,301,298	22,291,280
Furniture and fixtures	4,668,979	4,667,509
Equipment	361,862	361,862
Construction in progress	4,303	4,303
Total	<u>28,318,326</u>	<u>28,306,838</u>
Accumulated depreciation	<u>(18,463,365)</u>	<u>(17,534,336)</u>
Property and equipment – net	<u>\$ 9,854,961</u>	<u>\$10,772,502</u>

NOTE E – RENTAL PROPERTY

At May 31, 2018 and 2017, rental property consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$3,476,044	\$3,476,044
Building	379,782	379,782
Total	<u>3,855,826</u>	<u>3,855,826</u>
Accumulated depreciation	<u>(298,976)</u>	<u>(286,124)</u>
Rental property – net	<u>\$3,556,850</u>	<u>\$3,569,702</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2018
(With Prior Year Comparative Information)**

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 December 2027. At May 31, 2018, future minimum lease rent receipts approximated the following:

Years Ending May 31st	
2019	\$101,700
2020	\$ 99,800
2021	\$ 99,100
2022	\$101,300
2023	\$103,500
Thereafter (cumulative)	\$474,000

Lease rent income and recoveries of costs and related lease rent expenses for the years ended May 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Rental income		
Rental income	\$ 49,056	\$ 75,920
Operating expense recoveries	2,862	21,096
Hawaii general excise tax recoveries	395	3,949
Other cost recoveries	-	2,039
Total rental income	<u>52,313</u>	<u>103,004</u>
Rental expenses		
Utilities	22,155	2,619
Management fees	20,669	25,618
Real property tax	19,130	31,365
Depreciation	12,852	12,851
Repairs and maintenance	8,517	18,744
Insurance	6,584	6,639
Hawaii general excise tax	2,354	5,045
Other cost and expenses	15,559	27,179
Total rental expenses	<u>107,820</u>	<u>130,060</u>
Rental property loss – net	<u>\$ (55,507)</u>	<u>\$ (27,056)</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2018
(With Prior Year Comparative Information)**

NOTE G – TEMPORARILY RESTRICTED NET ASSETS

At May 31, 2018 and 2017, temporarily restricted net assets consisted of the following:

	<u>2018</u>	<u>2017</u>
Temporarily restricted for		
Organ restoration	\$102,862	\$102,862
Educational programming	<u>25,000</u>	<u>20,000</u>
 Total temporarily restricted net assets	 <u>\$127,862</u>	 <u>\$122,862</u>

NOTE H – SPECIAL EVENT

For the years ended May 31, 2018 and 2017, revenue and expenses for the special event consisted of the following:

	<u>2018</u>	<u>2017</u>
Revenue		
Ticket sales	\$54,751	\$261,057
Donations	-	10,700
Total revenue	<u>54,751</u>	<u>271,757</u>
Direct expenses		
Costs of direct benefits to donors	51,630	224,872
Hawaii general excise tax	-	11,916
Total direct expenses	<u>51,630</u>	<u>236,788</u>
 Special event – net	 <u>\$ 3,121</u>	 <u>\$ 34,969</u>

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 did not contribute to this plan for the years ended May 31, 2018 and 2017.

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. Contributions to this plan are determined annually by the Center's Board of Directors. There were no contributions to this plan for the years ended May 31, 2018 and 2017. The assets and liabilities of the Center included \$106,517 and \$100,540 related to the deferred compensation plan at May 31, 2018 and 2017, respectively.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2018
(With Prior Year Comparative Information)

NOTE J – COMMITMENTS

Leases

The Center leases the theatre marquee under a capital lease agreement expiring in October 2020. At May 31, 2018 and 2017, the cost of the marquee amounted to \$155,000, and the related accumulated depreciation amounted to \$40,042 and \$24,542, respectively. At May 31, 2018, future minimum capital lease payments and the present value of future minimum capital lease payments were as follows:

Years Ending May 31st	
2019	\$ 33,677
2020	33,677
2021	37,533
Total future minimum lease payments	104,887
Amount representing interest imputed at 8.90%	(13,186)
Present value of future minimum capital lease payments	91,701
Capital lease obligations – current	(26,600)
Capital lease obligations – noncurrent	<u>\$ 65,101</u>

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 \$34,273 and \$32,109 for the years ended May 31, 2018 and 2017, 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 reasonably possible that such estimates may change within the near term.

The Center operates in the State of Hawaii. Local, 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.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2018
(With Prior Year Comparative Information)**

NOTE L – LIQUIDITY

The Center incurred significant losses during and prior to the years ended May 31, 2018 and 2017, resulting in significant decreases in its financial condition and net assets. To address this condition, the Center is focusing on education programs, benefit concerts, film programming, and other licensed use events, as well as utilizing effective advertising media and revising ticket pricing and licensed user fee structures. 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, 2017, from which the information was derived.

NOTE N – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 12, 2019, 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.
