

HAWAII THEATRE CENTER

FINANCIAL STATEMENTS
As of and for the Year Ended May 31, 2019
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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, during the year ended May 31, 2019, the Center adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Prior Year Comparative Information

We have previously audited the Center's May 31, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our reported dated August 12, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
December 10, 2019

HAWAII THEATRE CENTER
STATEMENT OF FINANCIAL POSITION
As of May 31, 2019
(With Prior Year Comparative Information)

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 565,754	\$ 475,531
Accounts receivable – net	148,471	119,917
Investments – current	-	31,549
Prepaid expenses and other assets	<u>79,778</u>	<u>87,603</u>
Total current assets	<u>794,003</u>	<u>714,600</u>
NONCURRENT ASSETS		
Property and equipment – net	8,933,443	9,854,961
Rental property – net	3,543,999	3,556,850
Investments – noncurrent	<u>104,043</u>	<u>106,517</u>
Total noncurrent assets	<u>12,581,485</u>	<u>13,518,328</u>
TOTAL ASSETS	<u>\$ 13,375,488</u>	<u>\$ 14,232,928</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 432,887	\$ 322,305
Deferred revenue	322,269	364,614
Capital lease obligation – current	<u>30,300</u>	<u>26,600</u>
Total current liabilities	<u>785,456</u>	<u>713,519</u>
NONCURRENT LIABILITIES		
Liability for deferred compensation plan	104,043	106,517
Liability for lease security deposits	19,212	19,212
Capital lease obligation – noncurrent	<u>21,624</u>	<u>65,101</u>
Total noncurrent liabilities	<u>144,879</u>	<u>190,830</u>
TOTAL LIABILITIES	<u>930,335</u>	<u>904,349</u>
NET ASSETS		
Net assets without donor restrictions		
Undesignated	(479,631)	(119,393)
Invested in property and equipment	8,881,519	9,763,260
Invested in rental property	<u>3,543,999</u>	<u>3,556,850</u>
Total net assets without donor restrictions	<u>11,945,887</u>	<u>13,200,717</u>
Net assets with donor restrictions	<u>499,266</u>	<u>127,862</u>
Total net assets	<u>12,445,153</u>	<u>13,328,579</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,375,488</u>	<u>\$ 14,232,928</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER
STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2019
(With Prior Year Comparative Information)

	<u>2019</u>	<u>2018</u>
CHANGES IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Tickets and advertising revenue	\$ 955,357	\$ 205,289
HTC rentals and box office fees	718,284	454,717
Restoration surcharge	252,663	147,257
Contributions and planned gifts without donor restrictions	212,580	59,582
Concession, merchandise, and other income	158,553	101,602
Income from rental operations	135,177	52,313
Membership and seat campaign	128,696	93,550
Special events	-	54,751
Net assets released from donor restrictions	45,500	134,240
Grants and sponsorships without donor restrictions	33,046	43,919
Education program fees	30,890	68,564
Investment income – net	<u>2,782</u>	<u>10,954</u>
Total revenue and support	<u>2,673,528</u>	<u>1,426,738</u>
Expenses		
Program services		
Theatre operations	2,957,790	1,999,950
Rental operations	<u>130,365</u>	<u>107,820</u>
Total program services	<u>3,088,155</u>	<u>2,107,770</u>
Supporting services		
Management and general	434,739	361,377
Fundraising	<u>405,464</u>	<u>377,420</u>
Total supporting services	<u>840,203</u>	<u>738,797</u>
Total expenses	<u>3,928,358</u>	<u>2,846,567</u>
Decrease in net assets without donor restrictions	<u>(1,254,830)</u>	<u>(1,419,829)</u>
CHANGES IN NET ASSETS		
WITH DONOR RESTRICTIONS		
Grants and contributions with donor restrictions	416,904	139,240
Net assets released from donor restrictions	<u>(45,500)</u>	<u>(134,240)</u>
Increase in net assets with donor restrictions	<u>371,404</u>	<u>5,000</u>
DECREASE IN NET ASSETS	(883,426)	(1,414,829)
NET ASSETS – Beginning of year	<u>13,328,579</u>	<u>14,743,408</u>
NET ASSETS – End of year	<u>\$ 12,445,153</u>	<u>\$ 13,328,579</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended May 31, 2019
(With Prior Year Comparative Information)

	<u>Theatre Operations</u>	<u>Rental Operations</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total Supporting Services</u>	<u>2019 Total</u>	<u>2018 Total</u>
Salaries and related expenses								
Salaries and wages	\$ 506,142	-	\$ 506,142	\$144,300	\$148,673	\$292,973	\$ 799,115	\$ 578,194
Employee benefits	72,237	-	72,237	17,109	17,627	34,736	106,973	102,070
Payroll taxes	43,801	-	43,801	12,460	12,838	25,298	69,099	53,781
Salaries, wages, and benefits	622,180	-	622,180	173,869	179,138	353,007	975,187	734,045
Depreciation	832,958	12,851	845,809	46,275	46,276	92,551	938,360	941,881
Production costs	859,218	-	859,218	-	-	-	859,218	178,813
Utilities	159,518	32,559	192,077	45,483	46,843	92,326	284,403	241,167
Advertising and promotion	134,468	-	134,468	1,128	1,162	2,290	136,758	66,271
Repairs and maintenance	81,255	11,328	92,583	17,295	18,818	36,113	128,696	131,999
Professional and contract services	16,197	9,065	25,262	69,069	15,987	85,056	110,318	115,574
License and fees	70,040	-	70,040	30,536	3,001	33,537	103,577	40,171
Insurance	26,631	-	26,631	26,630	27,437	54,067	80,698	81,906
Taxes, other than income taxes	1,018	61,818	62,836	2,749	8,511	11,260	74,096	28,496
Education program	65,171	-	65,171	-	-	-	65,171	99,658
Special events	-	-	-	-	-	-	-	51,630
Development	-	-	-	-	44,771	44,771	44,771	14,005
Travel and transportation	26,646	-	26,646	2,953	3,043	5,996	32,642	13,755
Cost of concession sales	31,278	-	31,278	-	-	-	31,278	24,519
Supplies and equipment	9,183	-	9,183	6,879	7,087	13,966	23,149	27,442
Miscellaneous	22,029	2,744	24,773	11,873	3,390	15,263	40,036	55,235
Total expenses	<u>\$2,957,790</u>	<u>\$130,365</u>	<u>\$3,088,155</u>	<u>\$434,739</u>	<u>\$405,464</u>	<u>\$840,203</u>	<u>\$3,928,358</u>	<u>\$2,846,567</u>

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER
STATEMENT OF CASH FLOWS
For the Year Ended May 31, 2019
(With Prior Year Comparative Information)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$(883,426)	\$(1,414,829)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities		
Depreciation of property and equipment	925,509	929,029
Depreciation of rental property	12,851	12,852
Gain on investments	(1,485)	(9,437)
(Increase) decrease in		
Pledges and accounts receivable – net	(28,554)	(5,320)
Prepaid expenses and other assets	7,825	38,186
Increase (decrease) in		
Accounts payable and accrued liabilities	110,582	45,346
Deferred revenue	(42,345)	249,067
Liability for deferred compensation plan	(2,474)	5,977
Net cash provided (used) by operating activities	<u>98,483</u>	<u>(149,129)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	37,076	4,667
Purchases of investments	(1,568)	(1,080)
Purchases of property and equipment	(3,991)	(11,488)
Increase in liability for lease security deposits	-	14,906
Net cash provided by investing activities	<u>31,517</u>	<u>7,005</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	<u>(39,777)</u>	<u>(24,327)</u>
Net cash used by financing activities	<u>(39,777)</u>	<u>(24,327)</u>
NET INCREASE (DECREASE) IN CASH	90,223	(166,451)
CASH – Beginning of year	<u>475,531</u>	<u>641,982</u>
CASH – End of year	<u>\$ 565,754</u>	<u>\$ 475,531</u>
SUPPLEMENTAL INFORMATION		
Cash paid during the year for interest	\$ 7,094	\$ 9,350

See accompanying notes to the financial statements.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS

**For the Year Ended May 31, 2019
(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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Contributions are recorded as increases to net assets without donor restrictions or net assets with donor restrictions 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 net assets with donor restrictions, depending on the nature of the restriction. When a donor imposed restriction is satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Revenue is recognized when earned, and expenses are recognized when the related liability is incurred. Advertising and promotion costs, amounting to \$136,758 and \$66,271 for the years ended May 31, 2019 and 2018, 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 based on estimates of management of the efforts of the Center's personnel and their use of its facilities by each function.

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, 2019
(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 accounts receivable. Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$217,600 and \$7,000 at May 31, 2019 and 2018, 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. Accounts receivable have been reduced by an estimated allowances for doubtful accounts of \$0 and \$25,500 at May 31, 2019 and 2018, respectively. 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, 2019
(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 expense amounted to approximately to \$13,600 and \$11,500 for the years ended May 31, 2019 and 2018, 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, 2019 and 2018 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.

Adoption of New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, there are two classes of net assets – net assets with donor restrictions and net assets without donor restrictions. This ASU also requires reporting of underwater amounts for donor-restricted endowments with enhanced disclosures; allows for the presentation of cash flows using the indirect or direct method without a reconciliation of the direct method to the indirect method; requires qualitative information on how the organization manages its liquid assets and associated liquidity risks; requires information on the financial statements or in the notes to the financial statements on the availability of the organization's assets to meet cash needs for general expenditures within one year; and requires reporting of expenses by function and nature along with an analysis of such expenses. Upon adoption, this ASU is to be applied retrospectively. The Center implemented this ASU during the year ended May 31, 2019.

NOTE B – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Center incurred significant losses during and prior to the years ended May 31, 2019 and 2018, 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.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2019
(With Prior Year Comparative Information)

NOTE B – LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

The following reflects the Center’s financial assets as of May 31, 2019 and 2018, reduced by amounts not available for use within one year of the statement of financial position date for general operations because of contractual or donor-imposed restrictions:

	<u>2019</u>	<u>2018</u>
Cash (including interest-bearing accounts)	\$565,754	\$475,531
Accounts receivable – net	148,471	119,917
Investments – current	-	31,549
Total financial assets	<u>714,225</u>	<u>626,997</u>
Net assets with donor restrictions	<u>(499,266)</u>	<u>(127,862)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$214,959</u>	<u>\$499,135</u>

NOTE C – INVESTMENTS

At May 31, 2019 and 2018, investments consisted of the following:

	<u>2019</u>	<u>2018</u>
Mutual funds	\$104,043	\$106,517
Municipal bonds	-	31,549
Total investments	<u>\$104,043</u>	<u>\$138,066</u>

For the years ended May 31, 2019 and 2018, net investment income consisted of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$1,297	\$ 1,692
Realized gain from sales of investments	1,162	-
Unrealized gain from holding investments	323	9,437
Investment fees	-	(175)
Investment income – net	<u>\$2,782</u>	<u>\$10,954</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2019
(With Prior Year Comparative Information)

NOTE D – 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, 2019 and 2018, 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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds	\$ 80,136	\$ -	\$ -	\$ 80,136
Fixed income funds	13,480	-	-	13,480
Targeted allocated funds	10,427	-	-	10,427
Total mutual funds	<u>104,043</u>	<u>-</u>	<u>-</u>	<u>104,043</u>
Total investments at fair value	<u>\$104,043</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$104,043</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2019
(With Prior Year Comparative Information)

NOTE D – 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, 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	10,754	-	-	10,754
Total mutual funds	<u>106,517</u>	<u>-</u>	<u>-</u>	<u>106,517</u>
Municipal bonds	<u>-</u>	<u>31,549</u>	<u>-</u>	<u>31,549</u>
Total investments at fair value	<u>\$106,517</u>	<u>\$31,549</u>	<u>\$ -</u>	<u>\$138,066</u>

NOTE E – PROPERTY AND EQUIPMENT

At May 31, 2019 and 2018, property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 981,884	\$ 981,884
Buildings and improvements	22,305,601	22,301,298
Furniture and fixtures	4,672,970	4,668,979
Equipment	361,862	361,862
Construction in progress	-	4,303
Total	<u>28,322,317</u>	<u>28,318,326</u>
Accumulated depreciation	<u>(19,388,874)</u>	<u>(18,463,365)</u>
Property and equipment – net	<u>\$ 8,933,443</u>	<u>\$ 9,854,961</u>

NOTE F – RENTAL PROPERTY

At May 31, 2019 and 2018, rental property consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$3,476,044	\$3,476,044
Building	379,781	379,781
Total	<u>3,855,825</u>	<u>3,855,825</u>
Accumulated depreciation	<u>(311,826)</u>	<u>(298,975)</u>
Rental property – net	<u>\$3,543,999</u>	<u>\$3,556,850</u>

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2019
(With Prior Year Comparative Information)

NOTE F – RENTAL PROPERTY (Continued)

The Center leases property adjacent to the Theatre to commercial tenants under operating leases expiring at various dates through July 2028. At May 31, 2019, future minimum lease rent receipts approximated the following:

Years Ending May 31st	
2020	\$ 99,800
2021	\$ 99,100
2022	\$101,300
2023	\$103,500
2024	\$ 91,700
Thereafter (cumulative)	\$382,300

NOTE G – NET ASSETS WITH DONOR RESTRICTIONS

At May 31, 2019 and 2018, net assets with donor restrictions consisted of the following:

	<u>2019</u>	<u>2018</u>
Interior/exterior lighting improvements	\$371,404	\$ -
Organ restoration	102,862	102,862
Educational programming	<u>25,000</u>	<u>25,000</u>
Total net assets with donor restrictions	<u>\$499,266</u>	<u>\$127,862</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 did not contribute to this plan for the years ended May 31, 2019 and 2018.

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, 2019 and 2018. The assets and liabilities of the Center included \$104,043 and \$106,517 related to the deferred compensation plan at May 31, 2019 and 2018, respectively.

HAWAII THEATRE CENTER

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2019
(With Prior Year Comparative Information)

NOTE I – COMMITMENTS

Leases

The Center leases the theatre marquee under a capital lease agreement expiring in October 2020. At May 31, 2019 and 2018, the cost of the marquee amounted to \$155,000, and the related accumulated depreciation amounted to \$55,542 and \$40,042, respectively. At May 31, 2019, future minimum capital lease payments and the present value of future minimum capital lease payments were as follows:

Years Ending May 31st	
2020	\$33,677
2021	<u>22,351</u>
Total future minimum lease payments	56,028
Amount representing interest imputed at 8.90%	<u>(4,104)</u>
Present value of future minimum capital lease payments	51,924
Capital lease obligations – current	<u>(30,300)</u>
Capital lease obligations – noncurrent	<u>\$21,624</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 the 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 \$36,176 and \$34,273 for the years ended May 31, 2019 and 2018, 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 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, 2019
(With Prior Year Comparative Information)

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 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, 2018, from which the information was derived. Certain amounts in the prior year have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported changes in net assets.

NOTE L – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 10, 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.
