

**HONOLULU THEATRE FOR YOUTH**

**FINANCIAL STATEMENTS**

**YEAR ENDED MAY 31, 2021**

**(With Independent Auditor's Report)**

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**CHOO, OSADA & LEE, CPAs, INC.**  
CERTIFIED PUBLIC ACCOUNTANTS

1136 12TH AVENUE  
SUITE 240  
HONOLULU, HAWAII 96816

TELEPHONE (808) 734-1921

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Honolulu Theatre for Youth  
Honolulu, Hawaii

We have audited the accompanying financial statements of Honolulu Theatre for Youth (a nonprofit corporation), which comprise the statements of financial position as of May 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Honolulu Theatre for Youth as of May 31, 2021, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited Honolulu Theatre for Youth's 2020 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 12, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Choo, Osada & Lee, CPAs, Inc.*

Honolulu, Hawaii  
October 21, 2021

**HONOLULU THEATRE FOR YOUTH  
STATEMENT OF FINANCIAL POSITION  
YEARS ENDED MAY 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 738,721	770,191
Investments in marketable securities	174,007	138,557
Accounts receivable	16,448	2,015
Contributions receivable	3,011	8,172
Grants receivable	255,383	42,601
Other receivables	-	1,718
Costume inventory	25,000	25,000
Prepaid and deferred expenses	7,833	10,859
Property and equipment, net of accumulated depreciation and amortization	45,027	33,900
Deposits	<u>7,765</u>	<u>12,116</u>
Total assets	<u>\$ 1,273,195</u>	<u>1,045,129</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Obligations under capital lease	\$ -	6,905
Accounts payable	8,629	7,497
Accrued liabilities	38,941	27,888
Notes payable	363,190	184,600
Deferred revenue	<u>21,360</u>	<u>12,386</u>
	<u>432,120</u>	<u>239,276</u>
Net assets		
Without donor restrictions	673,703	653,429
With donor restrictions	<u>167,372</u>	<u>152,424</u>
	<u>841,075</u>	<u>805,853</u>
Total liabilities and net assets	<u>\$ 1,273,195</u>	<u>1,045,129</u>

See accompanying notes.

**HONOLULU THEATRE FOR YOUTH**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED MAY 31, 2021 (With Comparative Totals for 2020)**

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue				
Contributions	\$ 171,360	309,436	480,796	512,623
Government grants	368,106	329,600	697,706	266,632
Contributed facilities and equipment	164,100	-	164,100	128,223
Admission revenue	25,751	-	25,751	478,357
Production revenue	160,750	-	160,750	207,403
Tuition revenue	46,993	-	46,993	118,196
Other revenue	2,740	-	2,740	3,881
Special events	86,190	-	86,190	142,810
Investment income	445	2,207	2,652	3,944
Net realized and unrealized gain on investments	7,230	25,740	32,970	1,989
Net assets released from restrictions satisfied by usage	652,035	(652,035)	-	-
	<u>1,685,700</u>	<u>14,948</u>	<u>1,700,648</u>	<u>1,864,058</u>
Expenses and losses				
Program services	1,398,392	-	1,398,392	1,505,479
Management and general	153,860	-	153,860	162,458
Fundraising	112,788	-	112,788	131,842
Direct cost of special events	386	-	386	37,268
Total expenses	<u>1,665,426</u>	<u>-</u>	<u>1,665,426</u>	<u>1,837,047</u>
Increase in net assets	20,274	14,948	35,222	27,011
Net assets				
At beginning of year	<u>653,429</u>	<u>152,424</u>	<u>805,853</u>	<u>778,842</u>
At end of year	<u>\$ 673,703</u>	<u>167,372</u>	<u>841,075</u>	<u>805,853</u>

See accompanying notes.

**HONOLULU THEATRE FOR YOUTH**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED MAY 31, 2021 (With Comparative Totals for 2020)**

	2021					2020
	Program Services	Administration	Fundraising	Direct Cost of Special Events	Total	Total
Salaries and housing allowances	\$ 749,381	59,062	86,072	-	894,515	827,935
Employee benefits	135,430	17,997	10,144	-	163,571	151,419
Payroll taxes	54,872	8,958	3,202	-	67,032	64,120
Total salaries and related expenses	939,683	86,017	99,418	-	1,125,118	1,043,474
Fees for service	55,292	17,977	1,421	-	74,690	113,407
Advertising and promotion	27,545	-	-	-	27,545	46,071
Office expenses	21,827	3,688	2,099	-	27,614	27,922
Information technology	-	3,535	-	-	3,535	1,600
Royalties	-	-	-	-	-	9,884
Occupancy	90,859	13,220	8,292	-	112,371	121,409
Travel	7,522	1,419	-	-	8,941	74,065
Conference and meetings	1,224	12	20	-	1,256	3,825
Interest	-	4,240	-	-	4,240	717
Depreciation	12,243	7,300	-	-	19,543	20,487
Insurance	17,119	2,343	753	-	20,215	15,001
Production	212,643	-	-	-	212,643	297,775
Repairs and maintenance	-	7,805	-	-	7,805	7,741
Other	12,435	6,304	785	-	19,524	16,401
Special events	-	-	-	386	386	37,268
Total expenses	\$ 1,398,392	153,860	112,788	386	1,665,426	1,837,047

See accompanying notes.

**HONOLULU THEATRE FOR YOUTH**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED MAY 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Increase in net assets	\$ 35,222	27,011
Adjustments to reconcile change in net assets to		
net cash provided (used) by operating activities		
Depreciation and amortization	19,543	20,488
Net realized and unrealized gain on investments	(32,970)	(1,989)
Forgiveness of PPP loan	(184,600)	-
(Increase) decrease in:		
Accounts receivable	(14,433)	29,037
Contributions receivable	5,161	(8,172)
Grants receivable	(212,782)	68,167
Other receivables	1,718	(1,718)
Prepaid and deferred expenses	3,026	25,849
Deposits	4,351	(4,308)
Increase (decrease) in:		
Accounts payable	1,132	(12,618)
Accrued liabilities	11,053	6,570
Deferred revenue	8,974	(77,862)
Net cash provided (used) by operating activities	<u>(354,605)</u>	<u>70,455</u>
Cash flows from investing activities		
Proceeds from sale of investments	1,221	617
Purchases of investments	(3,701)	(10,090)
Purchases of property and equipment	<u>(30,670)</u>	<u>(7,989)</u>
Net cash used by investing activities	<u>(33,150)</u>	<u>(17,462)</u>
Cash flows from financing activities		
Proceeds from notes payable	363,190	184,600
Principal payments on capital lease	<u>(6,905)</u>	<u>(7,953)</u>
Net cash provided by financing activities	<u>356,285</u>	<u>176,647</u>
Net increase (decrease) in cash	(31,470)	229,640
Cash and cash equivalents at beginning of year	<u>770,191</u>	<u>540,551</u>
Cash and cash equivalents at end of year	<u><u>\$ 738,721</u></u>	<u><u>770,191</u></u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 143	505

See accompanying notes.



**HONOLULU THEATRE FOR YOUTH  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2021**

**NOTE 1 – NATURE OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND  
USE OF ESTIMATES**

Nature of organization

Honolulu Theatre for Youth (Theatre) is a nonprofit corporation organized under the laws of the State of Hawaii. It was organized to produce professional theatre and drama education programs that make a difference in the lives of young people, families and educators in the State of Hawaii.

The Theatre's primary sources of support and revenue are admission and production fees from theatrical performances, donations from corporations and individuals, grants from government agencies and charitable foundations, tuition from drama education programs, and proceeds from fundraising events.

Cash and cash equivalents

For purposes of the statement of cash flows, the Theatre considers all highly liquid debt instruments purchased with a maturity of three months or less and not included in the Theatre's investment portfolio to be cash equivalents.

Accounts receivable

The Theatre extends unsecured credit to certain customers, primarily schools in Hawaii.

Accounts receivable are recorded when admission fees have been earned for theatrical performances. Accounts receivable are written off when they are determined to be uncollectible. Allowances for doubtful accounts are based on management's assessment of customers' credit histories.

Investments in marketable securities

Investments in marketable securities consist of mutual funds and are stated at fair value.

Costume inventory

A fixed amount representing the aggregate cost of costume inventory on hand has been capitalized, and the cost of new costumes is expensed in the statement of activity. The difference between this method and the capitalization of new costumes and expensing of discarded costumes is not significant.

Property and equipment

Property and equipment is recorded at cost or fair value at date of donation and depreciated using the straight-line method over the estimated useful lives of the assets.

It is the Theatre's policy to capitalize property and equipment over \$600; lesser amounts are expensed.

Equipment under capital lease is stated at the lower of the present value of minimum lease payments or the fair value at the inception of the lease, and is amortized over the lesser of the lease term or the estimated useful life of the related asset.

Deferred revenue and expenses

Admission fees, production fees, tuition fees, and certain grant proceeds received in advance are deferred until earned.

Direct costs associated with future theatrical productions or education programs are deferred until productions or programs have occurred.

**HONOLULU THEATRE FOR YOUTH**  
**NOTES TO FINANCIAL STATEMENTS - continued**  
**MAY 31, 2021**

**NOTE 1 – NATURE OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND  
USE OF ESTIMATES - continued**

Revenue Recognition

The financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. We refer to the new Topic 606 as the “new guidance.”

The provision of the new guidance have been analyzed and it has been concluded that no changes are necessary to conform with the new standard. Admission, production and tuition fees received in advance are deferred until earned. Revenue from all other significant sources is recognized when goods or services are provided.

Contributions

Contributions are recorded as support with restrictions and without restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions.

Contributions receivable are recognized as support in the period in which an unconditional promise has been made by the donor.

Contributed facilities and equipment use has been recorded as support and corresponding expense in the statements of activities.

Donated services have not been recorded in the accompanying financial statements since these services do not meet the criteria for recognition. However, many individuals volunteer their time and perform a variety of tasks that assist the Theatre with various programs services and management efforts.

Functional allocation of expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Advertising

Advertising costs are expensed in the period in which they are incurred.

Income taxes

The Theatre is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code and is classified as an organization that is not a private foundation by the Internal Revenue Service; the Theatre is also exempt from state income taxes under Section 235 of the Hawaii Revised Statutes.

**HONOLULU THEATRE FOR YOUTH**  
**NOTES TO FINANCIAL STATEMENTS - continued**  
**MAY 31, 2021**

**NOTE 1 – NATURE OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND USE OF ESTIMATES - continued**

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

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

At May 31, 2021, deposits in excess of federally insured limits amounted to approximately \$220,000.

**NOTE 3 – FAIR VALUE MEASUREMENTS**

The Financial Accounting Standards Board (FASB) has established a framework for measuring fair value in conformity with generally accepted accounting principles and for disclosures about fair value measurements. As a part of this framework, the FASB has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs, other than quoted market prices in active markets, that are observable either directly or indirectly; and

Level 3 - Unobservable inputs in which there is little or no market data, and which require significant management judgment or estimation.

The Theatre uses appropriate valuation techniques based on available inputs to measure fair value. When available, the Theatre measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The Theatre recognizes transfers between the levels in the fair value hierarchy at the end of the reporting period.

At May 31, 2021, the fair value of financial assets that are measured on a recurring basis were as follows:

	<u>Level 1</u>
Investments in mutual funds	<u>\$ 174,007</u>

**HONOLULU THEATRE FOR YOUTH**  
**NOTES TO FINANCIAL STATEMENTS - continued**  
**MAY 31, 2021**

**NOTE 4 – ENDOWMENTS**

The Theatre is subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Trustees has interpreted UPMIFA as requiring the Theatre to preserve the original gift of donor-restricted endowment funds as net assets with restrictions, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Theatre classifies as restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as restricted net assets until those amounts are appropriated for expenditure by the Theatre in a manner consistent with the standard of prudence prescribed by UPMIFA.

At May 31, 2021, the Theatre's endowment consisted of two individual funds established to provide unrestricted support to the Theatre's activities.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Theatre to retain as a fund of perpetual duration. At May 31, 2021, the fair value of invested assets assigned to individual donor restricted endowment net asset balances required to be maintained in perpetuity had no deficiency.

The Theatre, with the approval of the Board of Trustees, has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while also maintaining the long-term purchasing power of those assets. The Board of Trustees has also created a committee for the purpose of managing the endowment.

The Theatre has a policy of appropriating investment earnings for distribution.

At May 31, 2021, the composition of the endowment fund by net asset class was as follows:

Without donor restrictions	\$ -
With donor restrictions	<u>155,371</u>
	<u>\$ 155,371</u>

**HONOLULU THEATRE FOR YOUTH**  
**NOTES TO FINANCIAL STATEMENTS - continued**  
**MAY 31, 2021**

**NOTE 4 – ENDOWMENTS – continued**

The following is a reconciliation of the changes in the endowments by net asset class for the year ended May 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Balances at June 1, 2020	\$ -	123,821	123,821
Investment income	-	2,207	2,207
Net realized and unrealized appreciation	-	29,343	29,343
Balances at May 31, 2021	<u>\$ -</u>	<u>155,371</u>	<u>155,371</u>

**NOTE 5 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following reflects the Theatre's financial assets available within one year of the balance sheet date for general expenditure. The assets have been reduced by amounts not available for general use because of donor-imposed restrictions. Amounts available include Board-approved appropriations from the endowment fund for the following year as well as donor-restricted amounts that are available for expenditure in the following year:

Cash and cash equivalents	\$ 738,721
Investments in marketable securities	174,007
Accounts, contributions and grants receivable	274,842
Costume inventory	25,000
Prepaid and deferred expenses	<u>7,833</u>
Total financial assets	1,220,403
Donor imposed restrictions	
Endowment fund investments	<u>(113,343)</u>
	<u>\$ 1,107,060</u>

**HONOLULU THEATRE FOR YOUTH**  
**NOTES TO FINANCIAL STATEMENTS - continued**  
**MAY 31, 2021**

**NOTE 6 - PROPERTY AND EQUIPMENT**

At May 31, 2021, property and equipment consisted of the following:

Furniture and equipment	\$ 202,054
Leasehold improvements	48,996
Auto and trucks	<u>7,000</u>
	258,050
Less accumulated depreciation and amortization	<u>213,023</u>
	<u>\$ 45,027</u>

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

Equipment	\$ 37,815
Less accumulated amortization	<u>37,815</u>
	<u>\$ -</u>

Depreciation and amortization for the year ended May 31, 2021 included amortization of capital leases of approximately \$6,300.

**NOTE 7 – LINE OF CREDIT**

At May 31, 2021, the Theatre had a \$50,000 line of credit with a Hawaii bank. Drawings on the line bore interest at 2% above the bank's prime rate (5.25% at May 31, 2021) and were secured by substantially all of the Theatre's assets. There was no outstanding balance on the line of credit at May 31, 2021.

**HONOLULU THEATRE FOR YOUTH**  
**NOTES TO FINANCIAL STATEMENTS - continued**  
**MAY 31, 2021**

**NOTE 8 – NOTES PAYABLE**

At May 31, 2021, notes payable consisted of the following:

Note payable to Small Business Administration: Paycheck Protection Program (PPP Second Draw); forgiven in September 2021.	213,190
Note payable to Small Business Administration: Economic Injury Disaster Loan (EIDL) 2.75% interest rate; secured by substantially all of the Theatre's assets; no payments due until July 2022, requires \$641 monthly principal and interest payments thereafter	<u>150,000</u>
	<u>\$ 363,190</u>

Aggregate maturities of notes payable for the five years succeeding May 31, 2021, after giving effect for the above refinancing, are as follows:

<u>Year ending December 31,</u>	
2022	\$ 217,000
2023	3,600
2024	3,700
2025	3,800
2026	3,900

For the year ended May 31, 2021, interest expense amounted to approximately \$4,000.

**HONOLULU THEATRE FOR YOUTH**  
**NOTES TO FINANCIAL STATEMENTS - continued**  
**MAY 31, 2021**

**NOTE 9 – LEASES**

The Theatre leases office and warehouse space under long-term, noncancelable operating leases which expire in 2026.

At May 31, 2021, the future minimum lease payments under noncancelable operating leases were as follows:

<u>Year ending May 31,</u>	
0	\$ 30,000
0	17,000
0	10,000
0	11,000
0	1,000
thereafter	<u>-</u>
	<u><u>69,000</u></u>

Rent expense for the year ended May 31, 2021 was comprised of the following:

Minimum rentals under noncancelable	
operating leases	\$ 30,126
Other	<u>53,487</u>
	<u><u>\$ 83,613</u></u>

During the year ended May 31, 2021, the Theatre made use of theatre facilities provided by a Honolulu church. The agreement called for monthly utility and security payments based on actual usage effective March 15, 2012. For the year ended May 31, 2021, the fair value of the use of those facilities in excess of payments made was estimated at approximately \$162,000, and was reflected as support, and corresponding expense, in the accompanying statement of activities.



**HONOLULU THEATRE FOR YOUTH**  
**NOTES TO FINANCIAL STATEMENTS - continued**  
**MAY 31, 2021**

**NOTE 10 – NET ASSETS**

At May 31, 2021, net assets with donor restrictions were as follows:

Subsequent year's artistic programs	\$ 12,000
Donor-restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	113,343
Unappropriated income; expendable for unrestricted purposes upon appropriation	<u>42,029</u>
	<u>\$ 167,372</u>

**NOTE 11 – EMPLOYEE BENEFIT PLAN**

Effective January 1, 2014, the Theatre established a defined contribution employee benefit plan (Plan) under Section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees, and an employee who is a member of the Plan may elect to contribute a portion of his or her salary to the Plan. For the year ended May 31, 2021, the Theatre did not make contributions to the Plan.

**NOTE 12 – INCOME TAXES**

The Theatre's Form 990, Return of Organization Exempt from Income Tax, for the years ended May 31, 2018 and forward are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

**NOTE 13 – ADVERTISING EXPENSE**

For the year ended May 31, 2021, advertising expense amounted to approximately \$28,000.

**NOTE 14 - SUBSEQUENT EVENTS**

Hawaii's state and county governments instituted stay-at-home orders in response to the COVID-19 pandemic in March 2020. As directed, the Theatre suspended live performances and in person classes in favor of video productions. Although live performances and in person classes resumed in February 2021, government restrictions of various forms continue through the second half of calendar year 2021. The economic uncertainties and potential financial impacts of COVID-19 remain unknown.

**HONOLULU THEATRE FOR YOUTH**  
**NOTES TO FINANCIAL STATEMENTS - continued**  
**MAY 31, 2021**

**NOTE 15 – DATE OF MANAGEMENT’S REVIEW**

Subsequent events have been evaluated through October 21, 2021, the date the financial statements were available to be issued.