

# **HAWAII THEATRE CENTER**

**FINANCIAL STATEMENTS  
As of and for the Year Ended May 31, 2022  
With Prior Year Comparative Information  
And Independent Auditor's Report**





## INDEPENDENT AUDITOR'S REPORT

Hawaii Theatre Center:

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Hawaii Theatre Center (Center), a nonprofit Hawaii corporation, which comprise the statement of financial position as of May 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Center as of May 31, 2022, 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 (U.S. GAAP).

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for one year after the date that the financial statements are issued.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### *Report on Summarized Comparative Information*

The Center's May 31, 2021 financial statements were reviewed by us and our report thereon, dated June 16, 2022, stated we were not aware of any material modifications that should be made to those statements for them to be in accordance with U.S. GAAP. A review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended May 31, 2021 for it to be consistent with the reviewed financial statements from which it has been derived.

*CW Associates, CPAs*

CW Associates, CPAs  
Honolulu, Hawaii  
October 27, 2023



HAWAII THEATRE CENTER

STATEMENT OF FINANCIAL POSITION

As of May 31, 2022

(With Prior Year Reviewed Comparative Information)

	2022 <u>(Audited)</u>	2021 <u>(Reviewed)</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 2,819,584	\$ 359,743
Accounts receivable – net	116,801	72,954
Prepaid expenses and other assets	50,993	21,930
Total current assets	<u>2,987,378</u>	<u>454,627</u>
NONCURRENT ASSETS		
Investments in marketable securities	131,043	143,349
Property and equipment – net	6,987,159	7,608,031
Rental property – net	3,506,569	3,518,297
Total noncurrent assets	<u>10,624,771</u>	<u>11,269,677</u>
TOTAL ASSETS	<u>\$13,612,149</u>	<u>\$11,724,304</u>

(Continued)

**HAWAII THEATRE CENTER**

**STATEMENT OF FINANCIAL POSITION (Continued)**

**As of May 31, 2022**

**(With Prior Year Reviewed Comparative Information)**

	<u>2022</u>	<u>2021</u>
	<u>(Audited)</u>	<u>(Reviewed)</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 741,655	\$ 534,732
Deferred revenue	733,530	249,609
SBA PPP loans – current	-	30,200
Note payable – current	18,800	18,000
Total current liabilities	<u>1,493,985</u>	<u>832,541</u>
<b>NONCURRENT LIABILITIES</b>		
SBA PPP loans – noncurrent	-	124,041
SBA EIDL – noncurrent	2,000,000	150,000
Note payable – noncurrent	677,969	696,777
Liability for deferred compensation plan	131,043	143,349
Liability for lease security deposits	34,483	34,483
Total noncurrent liabilities	<u>2,843,495</u>	<u>1,148,650</u>
<b>TOTAL LIABILITIES</b>	<u>4,337,480</u>	<u>1,981,191</u>
<b>NET ASSETS</b>		
Net assets (deficit) without donor restrictions		
Undesignated	(1,299,209)	(1,548,584)
Invested in property and equipment	6,987,159	7,608,031
Invested in rental property	3,506,569	3,518,297
Total net assets (deficit) without donor restrictions	<u>9,194,519</u>	<u>9,577,744</u>
Net assets with donor restrictions	80,150	165,369
Total net assets	<u>9,274,669</u>	<u>9,743,113</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 13,612,149</u>	<u>\$ 11,724,304</u>

See accompanying notes to the financial statements.

**HAWAII THEATRE CENTER**

**STATEMENT OF ACTIVITIES**

**For the Year Ended May 31, 2022  
(With Prior Year Reviewed Comparative Information)**

	<u>2022</u>	<u>2021</u>
	<u>(Audited)</u>	<u>(Reviewed)</u>
<b>CHANGES IN NET ASSETS</b>		
<b>WITHOUT DONOR RESTRICTIONS</b>		
Revenue and support		
Grants without donor restrictions	\$ 961,593	\$ 143,566
Tickets and advertising	580,291	28,529
HTC rentals and box office fees	443,570	90,895
Contributions and planned gifts without donor restrictions	472,389	695,464
Restoration surcharge	173,312	3,216
Net assets released from donor restrictions for programs	149,371	82,243
Rental operations	134,874	154,183
Concession and merchandise sales, and other income	93,732	7,487
Membership fees	72,327	38,352
Sponsorships	25,000	25,000
Education program fees	22,231	4,930
Investment income (loss) – net	<u>(12,258)</u>	<u>29,274</u>
Total revenue and support	<u>3,116,432</u>	<u>1,303,139</u>
Expenses		
Program services		
Theatre operations	2,503,310	1,391,129
Rental operations	84,605	86,971
Total program services	<u>2,587,915</u>	<u>1,478,100</u>
Supporting services		
Management and general	572,132	393,978
Fundraising	493,851	580,994
Total supporting services	<u>1,065,983</u>	<u>974,972</u>
Total expenses	<u>3,653,898</u>	<u>2,453,072</u>
Revenue and support less expenses	<u>(537,466)</u>	<u>(1,149,933)</u>
Gain on forgiveness of SBA PPP loans	<u>154,241</u>	<u>173,800</u>
Decrease in net assets without donor restrictions	<u>(383,225)</u>	<u>(976,133)</u>

(Continued)

**HAWAII THEATRE CENTER**

**STATEMENT OF ACTIVITIES (Continued)**

**For the Year Ended May 31, 2022  
(With Prior Year Reviewed Comparative Information)**

	2022 <u>(Audited)</u>	2021 <u>(Reviewed)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Grants and contributions with donor restrictions	64,152	129,750
Net assets released from donor restrictions	<u>(149,371)</u>	<u>(82,243)</u>
Increase (decrease) in net assets with donor restrictions	<u>(85,219)</u>	<u>47,507</u>
DECREASE IN NET ASSETS	(468,444)	(928,626)
NET ASSETS – Beginning of year	<u>9,743,113</u>	<u>10,671,739</u>
NET ASSETS – End of year	<u>\$9,274,669</u>	<u>\$9,743,113</u>

See accompanying notes to the financial statements.

**HAWAII THEATRE CENTER**  
**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended May 31, 2022**  
**(With Prior Year Reviewed Comparative Information)**

	<u>Theatre Operations</u>	<u>Rental Operations</u>	<u>Total Program Services</u>	<u>Fund- Raising</u>	<u>Management and General</u>	<u>Total Supporting Services</u>	<u>2022 Total (Audited)</u>	<u>2021 Total (Reviewed)</u>
Salaries and related expenses								
Salaries and wages	\$ 299,566	\$ -	\$ 299,566	\$ 143,155	\$ 138,945	\$ 282,100	\$ 581,666	\$ 262,788
Employee benefits	63,588	-	63,588	21,891	8,941	30,832	94,420	85,245
Payroll taxes	<u>27,683</u>	<u>-</u>	<u>27,683</u>	<u>13,115</u>	<u>12,730</u>	<u>25,845</u>	<u>53,528</u>	<u>24,133</u>
Salaries, wages, and benefits	390,837	-	390,837	178,161	160,616	338,777	729,614	372,166
Depreciation	834,400	11,728	846,128	46,356	46,356	92,712	938,840	940,787
Production costs	638,784	-	638,784	-	-	-	638,784	169,621
Repairs and maintenance	128,148	11,649	139,797	64,662	62,770	127,432	267,229	159,114
Utilities	99,390	37,706	137,096	50,151	48,684	98,835	235,931	197,527
Education program	187,632	-	187,632	-	-	-	187,632	72,357
Insurance	47,705	-	47,705	49,150	47,705	96,855	144,560	136,775
Professional and contract services	55	16,973	17,028	28	103,650	103,678	120,706	62,966
Advertising and promotion	74,903	-	74,903	20,809	1,656	22,465	97,368	175,546
License and fees	28,995	-	28,995	13,170	34,019	47,189	76,184	18,168
Development	-	-	-	48,488	-	48,488	48,488	35,335
Supplies and equipment	14,284	-	14,284	12,326	8,731	21,057	35,341	19,271
Cost of concession sales	33,292	-	33,292	436	-	436	33,728	-
Taxes, other than income taxes	3,127	6,549	9,676	-	22,918	22,918	32,594	51,192
Interest	-	-	-	-	30,034	30,034	30,034	30,793
Travel and transportation	15,452	-	15,452	5,547	694	6,241	21,693	5,899
Miscellaneous	<u>6,306</u>	<u>-</u>	<u>6,306</u>	<u>4,567</u>	<u>4,299</u>	<u>8,866</u>	<u>15,172</u>	<u>5,555</u>
<b>Total expenses</b>	<b><u>\$2,503,310</u></b>	<b><u>\$ 84,605</u></b>	<b><u>\$2,587,915</u></b>	<b><u>\$493,851</u></b>	<b><u>\$572,132</u></b>	<b><u>\$ 1,065,983</u></b>	<b><u>\$3,653,898</u></b>	<b><u>\$ 2,453,072</u></b>

See accompanying notes to the financial statements.



**HAWAII THEATRE CENTER**

**STATEMENT OF CASH FLOWS**

**For the Year Ended May 31, 2022  
(With Prior Year Reviewed Comparative Information)**

	2022 <u>(Audited)</u>	2021 <u>(Reviewed)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (468,444)	\$ (928,626)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities		
In-kind contributions of property and equipment	(79,200)	-
Depreciation of property and equipment	927,112	927,936
Depreciation of rental property	11,728	12,851
(Gain) loss on investments in marketable securities	12,306	(29,252)
Gain on forgiveness of SBA PPP loans	(154,241)	(173,800)
(Increase) decrease in		
Accounts receivable – net	(43,847)	(24,297)
Prepaid expenses and other assets	(29,063)	52,027
Increase (decrease) in		
Accounts payable and accrued liabilities	206,923	(31,339)
Deferred revenue	483,921	77,556
Liability for deferred compensation plan	(12,306)	29,252
Net cash provided (used) by operating activities	<u>854,889</u>	<u>(87,692)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(227,040)</u>	<u>(4,024)</u>
Net cash used by investing activities	<u>(227,040)</u>	<u>(4,024)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Addition to SBA PPP loans	-	154,241
Addition to SBA EIDL	1,850,000	150,000
Repayments of note payable	(18,008)	(15,964)
Net cash provided by financing activities	<u>1,831,992</u>	<u>288,277</u>
<b>NET INCREASE IN CASH</b>	<b>2,459,841</b>	<b>196,561</b>
<b>CASH – Beginning of year</b>	<u><b>359,743</b></u>	<u><b>163,182</b></u>
<b>CASH – End of year</b>	<u><b>\$2,819,584</b></u>	<u><b>\$ 359,743</b></u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid during the year for interest	\$ 30,034	\$ 30,793
Noncash operating and investing activity – in-kind contributions of property and equipment	\$ 79,200	\$ -

See accompanying notes to the financial statements.

## HAWAII THEATRE CENTER

### NOTES TO THE FINANCIAL STATEMENTS

**For the Year Ended May 31, 2022  
(With Prior Year Reviewed 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; to provide educational opportunities for Hawaii's young people; to promote the redevelopment of downtown Honolulu and stimulate its use in the evening and on weekends; and to enhance the quality of life in Honolulu.

In March 2020, the Theatre temporarily closed due to government-mandated restrictions and shut downs as a result of the COVID-19 pandemic. The Theatre reopened to in-person events in August 2021. The Theatre provided online, virtual programming while it was closed to in-person events.

##### Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Center to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions* consist of net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center. These net assets may be used at the discretion of the Center's management and Board of Directors.

*Net Assets with Donor Restrictions* consist of net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity (none in 2022 and 2021).

The financial statements include certain prior year comparative information. Such information does not include sufficient detail to constitute a complete presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the prior year financial statements of the Center, from which the information was derived.

Certain amounts in the prior year comparative financial statements have been reclassified to conform to the current year presentation. Such reclassifications have no impact on the prior year's change in net assets.

## HAWAII THEATRE CENTER

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2022  
(With Prior Year Reviewed Comparative Information)**

#### NOTE A –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP 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, it is reasonably possible that such estimates may change within the near term, and such differences could be material to the financial statements.

##### Concentrations of Credit Risk

Financial instruments that potentially subject the Center to credit risk include cash, accounts receivable, and investments in marketable securities. Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$2,442,600 and was fully insured at May 31, 2022 and 2021, respectively. Management evaluates the credit standings of these financial institutions to ensure that such deposits are adequately safeguarded. Accounts receivable, which are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts, including historical experience, an assessment of economic conditions, and a review of subsequent collections, are adjusted for all known doubtful accounts (none at May 31, 2022 and 2021). Investments in 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.

##### Investments in Marketable Securities

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

##### Property and Equipment, and Rental Property

Property and equipment, and rental property, are stated at cost or, if contributed, at estimated fair market value at the date of contribution. Depreciation is provided using the straight-line method over estimated useful lives of 40 years for buildings and improvements, and three to seven years for furniture and fixtures, and 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, 2022  
(With Prior Year Reviewed Comparative Information)**

#### NOTE A –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Revenue and Expense Recognition

Revenue is recognized when the goods and services are provided to the customers. Revenue from performance obligations satisfied at a point in time consists of tickets and advertising, HTC rentals and box office fees, restoration surcharge, concession and merchandise sales, and education program fees. Revenue from performance obligations satisfied over time consists of rental operations and membership fees. Revenue from sources other than performance obligations consists of investment income (loss), other income, and gain on forgiveness of SBA PPP loans. See Note K for a disaggregation of revenue.

For performance obligations related to HTC tickets and advertising, HTC rentals and box office fees, restoration surcharge, concession and merchandise sales, and education program fees, the Center transfers control and records revenue when the show occurs, when the concession or merchandise is delivered to the customer, or when the education program occurs. For performance obligations related to income from rental operations, revenue is recognized in accordance with Accounting Standards Codification 840, *Leases*, on a straight-line basis over the course of the lease agreement when control of the promised space is transferred to the lessee. For performance obligations related to membership fees, the Center recognizes revenue for the direct benefit received by members over the course of the membership agreement when the membership benefits are transferred to the member, and contribution income for the portion in excess of the revenue recognized when the payment for the membership is received.

Revenue is measured based on the consideration specified in a contract with the customers, and excludes any sales incentives and amounts collected on behalf of third parties. The Center does not have any significant financing components as payment is received before, at, or shortly after the show and education program occurs, when the concession or merchandise is delivered, and when the promised space or membership benefits is provided. Amounts received before the provision of goods or services are recognized as deferred revenue in the financial statements.

Expenses are recorded when the related liability is incurred. Advertising and promotion costs, amounting to \$97,368 and \$175,546 for the years ended May 31, 2022 and 2021, respectively, are expensed the first time the advertising takes place.

The Center allocates its expenses on a functional basis among its various programs and supporting services based on estimates by management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Other expenses that are common to several functions include depreciation, repairs and maintenance, utilities, and insurance. These expenses are allocated based on management's estimates of the efforts of the Center's personnel and the use of the facilities by each function.

## HAWAII THEATRE CENTER

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2022  
(With Prior Year Reviewed Comparative Information)**

#### NOTE A –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Grants and Donor Contributions

The Center's revenue from grants is based on agreements with the State of Hawaii and other entities such as private foundations. The Center recognizes grants as either contributions or exchange transactions depending on whether the transaction is reciprocal or nonreciprocal. Amounts received from such grants and contracts for which the conditions and any restrictions are met in the same reporting period are reported as revenue in net assets without donor restrictions.

The Center recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, which are those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. Support is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction is satisfied or expires, net assets with donor restrictions are released to net assets without donor restrictions.

##### Donated Goods and Services

In-kind contributions of goods and services that meet the criteria for recognition are recognized by the Center as contributions at the estimated fair market value at the date of donation, and are recorded as expenses or assets in the same amount. 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.

During the years ended May 31, 2022 and 2021, the Center received in-kind contributions of goods and services amounting to \$202,326 and \$288,170, respectively, and are included in contributions and planned gifts without donor restrictions in the statement of activities. During the years ended May 31, 2022 and 2021, the Center also received in-kind contributions of property and equipment amounting to \$79,200 and \$0, respectively, and are included in contributions and planned gifts without donor restrictions in the statement of activities. Donated property and equipment and goods are valued at the retail price for identical or similar items. Donated services are valued based on an estimate of the fair market rate for similar services.

A number of unpaid volunteers have made 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, 2022  
(With Prior Year Reviewed 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 \$10,700 and \$7,700 for the years ended May 31, 2022 and 2021, respectively.

##### Income Taxes

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. U.S. GAAP requires 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, 2022 and 2021 and for the years then ended and determined that the Center had no uncertain tax positions required to be reported in accordance with U.S. GAAP. 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 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Center incurred significant losses during and prior to the year ended May 31, 2022, resulting in significant decreases in its financial position and net assets. The losses for the years ended May 31, 2022 and 2021 are partially attributable to the COVID-19 pandemic, which resulted in the Theatre being closed from March 2020 through August 2021. Due to the Center being closed, certain vendors such as the utility providers were not paid from March 2020 increasing the Center's liability balances. Management negotiated payment plans with certain of these vendors. To address its financial position, the Center received applied for and received a total of \$2,000,000 from the Economic Injury Disaster Loan program (EIDL) (see Note H). Management believes these funds and the revenue that will be generated now that the Theatre is reopened will provide sufficient funding to meet its obligations and to allow the Center to continue operating for at least one year from the date these financial statements were available to be issued. Accounts receivable are subject to implied time restrictions, but are expected to be collected within one year.

**HAWAII THEATRE CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended May 31, 2022  
(With Prior Year Reviewed Comparative Information)**

NOTE B – LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

The following reflects the Center’s financial assets as of May 31, 2022 and 2021, 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:

	2022 <u>(Audited)</u>	2021 <u>(Reviewed)</u>
Cash (including interest-bearing accounts)	\$2,819,584	\$359,743
Accounts receivable – net	<u>116,801</u>	<u>72,954</u>
Total financial assets	2,936,385	432,697
Net assets with donor restrictions	<u>(80,150)</u>	<u>(165,369)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$2,856,235</u>	<u>\$267,328</u>

NOTE C – INVESTMENTS IN MARKETABLE SECURITIES

At May 31, 2022 and 2021, investments in marketable securities consisted of the following:

	2022 <u>(Audited)</u>	2021 <u>(Reviewed)</u>
Mutual funds	<u>\$131,043</u>	<u>\$143,349</u>
Total investments in marketable securities	<u>\$131,043</u>	<u>\$143,349</u>

For the years ended May 31, 2022 and 2021, net investment income (loss) consisted of the following:

	2022 <u>(Audited)</u>	2021 <u>(Reviewed)</u>
Unrealized gains (losses) from holding investments in marketable securities	\$ (12,306)	\$ 29,252
Interest and dividends	<u>48</u>	<u>22</u>
Investment income (loss)	<u>\$ (12,258)</u>	<u>\$ 29,274</u>

## HAWAII THEATRE CENTER

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended May 31, 2022  
(With Prior Year Reviewed Comparative Information)

#### NOTE D – FAIR VALUE MEASUREMENTS

U.S. GAAP 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, 2022 and 2021, 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. There were no investments for which Level 2 and 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.

The following sets forth by level, within the fair value hierarchy, the investments in marketable securities of the Center at fair value as of May 31, 2022 (audited):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds	\$ 106,985	\$ -	\$ -	\$ 106,985
Fixed income funds	13,489	-	-	13,489
Targeted allocation funds	10,569	-	-	10,569
Total mutual funds	<u>131,043</u>	<u>-</u>	<u>-</u>	<u>131,043</u>
Total investments in marketable securities, at fair value	<u>\$ 131,043</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,043</u>



**HAWAII THEATRE CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended May 31, 2022  
(With Prior Year Reviewed Comparative Information)**

NOTE D – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, the investments in marketable securities of the Center at fair value as of May 31, 2021 (reviewed):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds	\$ 118,359	\$ -	\$ -	\$ 118,359
Fixed income funds	13,079	-	-	13,079
Targeted allocation funds	<u>11,911</u>	<u>-</u>	<u>-</u>	<u>11,911</u>
Total mutual funds	<u>143,349</u>	<u>-</u>	<u>-</u>	<u>143,349</u>
Total investments in marketable securities, at fair value	<u>\$ 143,349</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 143,349</u>

NOTE E – PROPERTY AND EQUIPMENT

At May 31, 2022 and 2021, property and equipment consisted of the following:

	2022 <u>(Audited)</u>	2021 <u>(Reviewed)</u>
Land	\$ 981,884	\$ 981,884
Buildings and improvements	22,305,601	22,305,601
Furniture and fixtures	5,252,170	5,172,970
Equipment	468,778	391,398
Construction in Progress	<u>149,660</u>	<u>-</u>
Total	29,158,093	28,851,853
Accumulated depreciation	<u>(22,170,934)</u>	<u>(21,243,822)</u>
Property and equipment – net	<u>\$ 6,987,159</u>	<u>\$ 7,608,031</u>

**HAWAII THEATRE CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended May 31, 2022  
(With Prior Year Reviewed Comparative Information)**

NOTE F – RENTAL PROPERTY

At May 31, 2022 and 2021, rental property consisted of the following:

	<u>2022</u> <u>(Audited)</u>	<u>2021</u> <u>(Reviewed)</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>(349,256)</u>	<u>(337,528)</u>
 Rental property – net	 <u>\$ 3,506,569</u>	 <u>\$ 3,518,297</u>

The Center leases property adjacent to the theatre to commercial tenants under operating leases expiring at various dates through May 2030. At May 31, 2022, future minimum lease rent receipts approximated the following:

Years Ending May 31st	
2023	\$ 230,000
2024	\$ 224,800
2025	\$ 225,900
2026	\$ 231,600
2027	\$ 237,800
Thereafter (cumulative)	\$ 572,629

NOTE G – SBA PPP LOANS AND SVOG

In April 2020, the Center applied for and received a \$173,800 Paycheck Protection Program (PPP) first draw loan from American Savings Bank (Bank). The U.S. Small Business Administration (SBA) established the PPP loan program in response to the COVID-19 pandemic to fund an entity’s payroll and other applicable costs. All or a portion of the loan, which matures two years from the date of funding and bears interest at 1%, may be forgiven if the Center meets the compliance requirements established by the SBA and other federal agencies. On November 18, 2020, the SBA approved forgiveness of the PPP first draw loan and a gain on forgiveness of the SBA PPP loan was recognized in the year ended May 31, 2021.

The federal Consolidated Appropriations Act, 2021, which was enacted on December 27, 2020, provides for a PPP second draw loan and other additional fiscal relief for entities impacted by the COVID-19 pandemic. In March 2021, the Center applied for and received a PPP second draw loan from the Bank in the amount of \$154,241. The PPP second draw loan bears interest at 1% and matures five years from the date of funding. The PPP second draw loan was subsequently forgiven on October 18, 2021 and the gain on forgiveness of SBAP PPP loan will be recognized in the year ending May 31, 2022.

## HAWAII THEATRE CENTER

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### For the Year Ended May 31, 2022 (With Prior Year Reviewed Comparative Information)

##### NOTE G – SBA PPP LOANS AND SVOG (Continued)

In July 2021, the Center received a \$428,937 Shuttered Venue Operators Grant (SVOG) from the SBA, which does not need to be repaid if the Center utilizes the funds for appropriate COVID-19 pandemic related costs. In October 2021, the Center received a supplemental SVOG of \$291,590.

##### NOTE H – SBA EIDL

In June 2020, the Center applied for and received a \$150,000 Economic Injury Disaster Loan (EIDL) from the SBA. The SBA established the EIDL program in response to the COVID-19 pandemic to fund an entity's working capital and normal operating expenses. The EIDL bears interest at 2.75%, required monthly payments of principal and interest of \$641 beginning in January 2023, matures in June 2050, is collateralized by real property of the Center, and includes covenants that may require the Center to make reports to the SBA.

In December 2021, the Center was approved by the SBA for an additional \$1,850,000 under the EIDL program, which was received in March 2022. The additional EIDL funds amended the original loan agreement to require monthly payments of principal and interest of \$8,756 beginning in January 2023. The interest rate and maturity date remained the same at 2.75% and June 2050, respectively.

At May 31, 2022 and 2021, the outstanding balance on the loan amounted to \$2,000,000 and \$150,000, respectively.

At May 31, 2022, scheduled maturities of the SBA EIDL approximated the following:

Years Ending May 31st	
2023	\$ 16,600
2024	49,700
2025	51,300
2026	52,700
2027	54,200
Thereafter (cumulative)	<u>1,775,500</u>
Total SBA EIDL	<u>\$ 2,000,000</u>

## HAWAII THEATRE CENTER

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended May 31, 2022**  
**(With Prior Year Reviewed Comparative Information)**

#### NOTE I – NOTE PAYABLE

The Center has a \$735,000 loan from the Bank. The loan bears interest at 4.125%, requires monthly payments of principal and interest of \$3,930, matures in December 2029, and is collateralized by real property. At May 31, 2022 and 2021, the outstanding balance on the loan amounted to \$696,769 and \$714,777, respectively.

The note payable to the Bank includes covenants that limit the Center's ability to borrow or incur liabilities, make investments, and purchase property and equipment; limit or prohibit certain other transactions; and require the Center to maintain certain financial ratios and to make periodic reports to the Bank.

At May 31, 2022, scheduled maturities of the note payable approximated the following:

Years Ending May 31st	
2023	\$ 18,800
2024	19,500
2025	20,400
2026	21,200
2027	21,100
Thereafter (cumulative)	<u>595,769</u>
Total note payable	<u>\$696,769</u>

#### NOTE J – NET ASSETS WITH DONOR RESTRICTIONS

At May 31, 2022 and 2021, net assets with donor restrictions consisted of the following:

	2022 (Audited)	2021 (Reviewed)
Organ restoration	\$80,150	\$102,862
Educational programming	-	58,474
Interior/exterior lighting improvements	-	<u>4,033</u>
Total net assets with donor restrictions	<u>\$80,150</u>	<u>\$165,369</u>

**HAWAII THEATRE CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended May 31, 2022  
(With Prior Year Reviewed Comparative Information)**

**NOTE K – DISAGGREGATION OF REVENUE**

For the years ended May 31, 2022 and 2021, revenue from performance obligations satisfied at a point in time, revenue from performance obligations satisfied over time, and revenue from sources other than performance obligations consisted of the following:

	2022 <u>(Audited)</u>	2021 <u>(Reviewed)</u>
Revenue from performance obligations satisfied at a point in time		
Tickets and advertising	\$ 580,291	\$ 28,529
HTC rentals and box office fees	443,570	90,895
Restoration surcharge	173,312	3,216
Concession and merchandise sales	91,492	6,442
Education program fees	<u>22,231</u>	<u>4,930</u>
Total revenue from performance obligations satisfied at a point in time	<u>\$ 1,310,896</u>	<u>\$ 134,012</u>
Revenue from performance obligations satisfied over time		
Rental operations	\$ 134,874	\$ 154,183
Membership fees	<u>72,327</u>	<u>38,352</u>
Total revenue from performance obligations satisfied over time	<u>\$ 207,201</u>	<u>\$ 192,535</u>
Revenue from sources other than performance obligations		
Gain on forgiveness of SBA PPP loan	\$ 154,241	\$ 173,800
Other income	2,240	1,045
Investment income (loss) – net	<u>(12,258)</u>	<u>29,274</u>
Total revenue from sources other than performance obligations	<u>\$ 144,223</u>	<u>\$ 204,119</u>

**NOTE L – 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, 2022 and 2021.

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, 2022 and 2021. The assets and liabilities of the Center included \$131,043 and \$143,349 related to the deferred compensation plan at May 31, 2022 and 2021, respectively.

## HAWAII THEATRE CENTER

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### For the Year Ended May 31, 2022 (With Prior Year Reviewed Comparative Information)

##### NOTE L – EMPLOYEE BENEFIT PLANS (Continued)

The Center participates in a multiple-employer defined contribution retirement plan covering substantially all of its employees who meet age and length of service requirements. The Center provides a matching contribution and may also make discretionary non-matching contributions up to the maximum allowed under Section 401(k) of the Internal Revenue Code, subject to approval of its Board of Directors. The Center's contributions to the plan amounted to \$37,343 and \$11,566 for the years ended May 31, 2022 and 2021, respectively.

##### NOTE M – 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 \$25,965 and \$37,775 for the years ended May 31, 2022 and 2021, respectively.

##### NOTE N – 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. These financial statements do not include the adjustments that would result if the Center were to account for future losses or asset impairments, as the effects on the financial statements of the Center from such changes in economic conditions are not presently determinable.

##### NOTE O – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 27, 2023, 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.